STATE INTERFERENCE IN SOUTH AFRICA

BY

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P. S. KING & STAPLES LIMITED
FOURTEEN GREAT SMITH STREET
WESTMINSTER

Printed in Great Britain

PREFACE

State action has been extended so rapidly in the Union that the general public is somewhat bewildered as a result while the authorities themselves sometimes show distinct signs of having lost their bearings. In an endeavour to clarify the course of events and the issues involved, to the benefit, it is hoped, of the general reader no less than students and teachers of contemporary South African economic and commercial history, the policies pursued by the State in reference to the South African economy, are discussed in this book: tracing their origin and development, recording failure or success, and indicating the degree of interrelationship or discordance. Thus, the philosophy of State intervention is briefly reviewed. Thereafter the departure from the free competitive basis of society is elucidated in relation to Government trading, protection, external trade relations, planned agricultural marketing, labour and transportation policy. Finally, the balance between, as also the prospects of, mining, industry and agriculture are discussed, while various adaptations and several more drastic alterations of South African economic and population policy are advocated. But, as behoves a public servant, I would emphasise that the views expressed have *no* official standing; neither have the strictures or blandishments of the State *any* connection with the political complexion of present or past Governments of the Union.

I am desirous of recording my indebtedness to my examiners for several helpful suggestions, and to the University of Pretoria for liberal financial assistance. I would mention, too, that the sympathetic assistance of Dr. A. J. Norval of the Board of Trade and Industries, Professor E. H. D. Arndt and, especially, Professor S. P. du T. Viljoen of the University of Pretoria, has been

of great value in the years of study and research during which this book took shape. Furthermore, I am indebted to the former and present Secretary for Commerce and Industries, many earlier colleagues in that Department, the Chairman and the members of the Board of Trade and Industries, for active encouragement and many enlightening discussions. Miss E. Reyneke of the Board also performed the kind service of perusing the manuscript in a critical mood, and undertook the further task of reading the proofs. I have to thank, in conclusion, the Joint Editors, Professor S. H. Frankel and Professor R. Leslie, of the *South African Journal of Economics*, for their permission to reproduce, in condensed form, two articles on State Interference and Centralised Planning, in regard to which they had previously suggested useful amendments.

F. J. VAN BILJON.

PRETORIA,
June 16th, 1938.

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STATE INTERFERENCE IN SOUTH AFRICA

INTRODUCTION

DOCTRINAL ASPECTS OF STATE INTERFERENCE

(Readers not interested in abstract discussions may omit the introduction.)

1. It is proposed to differentiate the economic doctrines of State action as appropriate to two bases on which society may be conceived to exist. Alternative foundations of the social order are, of course, also conceivable. Thus, if human instincts were essentially good, a very ideal society would result; for, given a collection of individuals, each pursuing his benign instincts without restraint, the inherent goodness common to their respective ends will ensure that the interests of the individual and the group will not be incompatible but in all respects identical. Hence, if an identism of interests is postulated, as a divine disposition or for any other reason, anarchy will be orderly and beneficent and unqualified *laissez-faire* in economic life the proper accompaniment. Alternatively, divine origin and right might be attributed to church or tyrant, in which event the only consistent doctrine for the control of economic activity would have to be fashioned so as to promote ecclesiastical or dictatorial interests.

2. The divine rights doctrine has largely fallen into disrepute and a collection of individuals, freely pursuing their own distinct ends, has been posited convincingly as the acme of disorder and malignancy. In their stead,

social order has been conceived to emerge when a plurality of individuals, possessing and pursuing separate ends, are so constrained to act as to produce an equivalence between individual and social interests. It is in principle consistent with this conception of society that the State endeavours to establish the harmony of interests, naturally lacking, by merely preserving law and order or by imposing divers other restraints if that proves necessary.[1] The former stage has been designated as (qualified) *laissez-faire*; the latter is described as State interference. But in both cases individual endeavour is accepted as legitimate, subject to the distinct understanding that, in the very nature of its being, the State is duty bound to restrict full liberty of action to an extent which is left unspecified; hence it remains necessary in practice "to discriminate between what Bentham, in his useful but forgotten nomenclature, used to term Agenda and Non-Agenda, and to do this at the same time without Bentham's prior presumption that interference is, at the same time 'generally needless' and 'generally pernicious.'"[2]

3. It is not proposed to dilate on the genesis of the plan of society referred to,[3] short of noting that in the course of the evolution of thought the belief in the sacrosanct character of absolutism and theocracy was deposed by a philosophical justification for individualism, compounded from various premises. This process may be taken to have reached its zenith in utilitarianism. Pinning their faith on rationality in thought and action, the utilitarian philosophers concluded that if individual activities are shorn of all virulence by the operation of proper sanctions, the welfare of both the individual and society will be raised to a maximum by permitting the individual freely to follow his course. By this reasoning a philosophical justification was furnished for a rigid confinement of State action to the prevention of deception

[1] *Cf.* Professor Pigou, *Economics in Practice*, p. 127.
[2] J. M. Keynes, *The End of Laissez-Faire*, p. 40.
[3] See J. M. Keynes, *ibid.*, for an account.

and coercion, with the assurance that, given such safeguards, individual liberty of action in other respects would not be productive of disharmonies between individual and public interests. The physiocratic doctrine of natural law and self-interest had previously led to a substantially similar position in respect to political and economic democracy, while the entire structure was reinforced in the nineteenth century by Darwin's survival theory. It is, however, to the attitude of the economists thereanent that we now turn.

4. In compiling *The Wealth of Nations*, Adam Smith responded to the thought of his time and shared the current conception of the "nature and causes" of the social order. Firstly, he relied fully upon the fundamental economic motive of self-interest, although not to the extent of dogmatically equating private and public interests: He volunteers, for instance, that employers "are an order of men whose interest is never exactly the same with that of the public; who have generally an interest to deceive and even to oppress the public."[4] Secondly, the motive of self-interest must have free play in circumstances characterised by "that equal and impartial administration of justice which renders the right of the meanest . . . subject respectable to the greatest, and which, by securing to every man the fruits of his own industry, gives the greatest and most effectual encouragement to every sort of industry."

The founder of classical economics thus based his edifice on individual endeavour, and proceeded to demolish the then current restrictive measures. But, precisely because they are governing authorities, the actions of Government in the field of enterprise are also suspect.[5] For is interference not an assumption of authority "which could safely be trusted, not only to no single person, but to no council or senate whatever," is public "prodigality and misconduct" not true of all governments, and is the statesman not necessarily

[4] Quotations from *The Wealth of Nations*.

[5] *Cf.* Professor Pigou, *op. cit.*, p 125.

exposed to the "insolent outrage of furious and disappointed monopolists?" At the same time, the author's refusal to equate private and social interests without admitting exceptions did not permit of allocating to the State a purely negative function in respect of economic activities. The valid instances of State action which were perceived over and above the chief function of maintaining the basic institutions of law, order and family, are, however, confined to the control of public institutions and the national transport system. While the justifications submitted in different instances largely confirm Smith's bias in the direction of *laissez-faire*, the hesitant admission that individual and social interests do still diverge is tantamount to recognising the legitimacy of introducing further restrictions in a *laissez-faire* régime, as and when necessary.

5. Other classical economists did not depart from the underlying idea that private and social interests only tend to coincide if laws and institutions are properly shaped, although even this diluted adherence to *laissez-faire* may in specific circumstances be subject to further qualification. Thus both Ricardo and Mill perceived instances which demand positive action by the State, the former, for example, pleading for the nationalisation of the Bank of England and the latter urging land reform and child labour laws. However, Bentham's formulation and that of his utilitarian successors achieved ascendancy in the nineteenth century and, on the basis of their doctrine and the general trend of classical economics, the Manchester School formulated the case for free trade and denounced governmental activity of whatever type in the field of economic relations. But this exaggerated extension of classical doctrines is not in consonance with their spirit and is not identifiable with them although the advocacy of *laissez-faire* was "confirmed in the minds of sound thinkers and by the reasonable public by the poor quality of the opponent proposals."[6] At the same time, in the third quarter of the nineteenth century, the marginal

[6] J. M. Keynes, *op. cit.*, p. 34.

utility theorists, emphasising the rôle of demand in price formation, reinforced this general attitude by paving the way for the view that consumers' selection will further compel producers to employ resources most productively.

6. In his synthesis of economic theory, Marshall declared in favour of qualified *laissez-faire* and perpetuated a refined classical doctrine concerning State interference.[7] Indeed, his theory of price-fixation, that demand and supply will tend to equilibrium at a point where price, marginal costs and marginal utility coincide, implies that it is also a position of maximum satisfaction; and this desirable arrangement will be ensured by free competition, mobility and rationality. Moreover, although two general features of the real word tend to upset the absolute validity of the doctrine of maximum satisfaction, social and economic forces are changing the one by altering the distribution of wealth for the better. In reference to the second, that is, the presence of industries working at decreasing costs, the remedy could have been attributed analytically to the competitive system itself.

However, Marshall's bias in favour of *laissez-faire* was not founded upon a belief in the harmonious results of the doctrine of maximum satisfaction but upon a conviction that the maintenance of enterprise and individuality is assured by free competition and frustrated by State interference. Thus, he asserted that "it seems almost as true now, as in former times, that the heavy hand of government tends to slacken progress in whatever it touches," or again, that there is "*prima facie* cause for fearing that the collective ownership of the means of production would deaden the energies of mankind and arrest economic progress; unless, before its introduction the whole people had acquired a power of unselfish devotion to the public good which is now relatively rare." Yet he presaged that "much of the failure and much of the injustice in which the economic policies of

[7] See *Wants and Activities in Marshall*, by Talcott Parsons, *Quarterly Journal of Economics*, November, 1931, for an erudite exposition.

governments have resulted, have been due to want of statistical measurement," while "the growing earnestness of the age, the growing intelligence of the mass of the people, and the growing power of the telegraph, the Press, and other means of communication are ever widening the scope of collective action for the public good; and these changes . . . are growing up under the influence of various motives besides that of pecuniary gain." [8]

Of course, Marshall's conception of the rôle of the State is not entirely negative, as is witnessed by his generous attitude in regard to the provision of social services and his full support of a reduction in the inequality of incomes; nevertheless, he is essentially an exponent of individual freedom and enterprise and his own verdict on the Smithian teaching on private enterprise is not unexpected: "He did the work so thoroughly that later generations have made no great addition to it: though they have introduced many qualifications into it, and have given scientific cohesion to it." [9]

7. Professor Pigou has been pre-eminent in performing this task.[10] Employing the national dividend as the criterion of economic welfare, he establishes that it will be raised to a maximum position by the free play of self-interest, which "in so far as it is not hampered by ignorance, tends, in the absence of costs of movement, so to distribute resources as to render the values of marginal net products everywhere equal." [11] However, the marginal social net product, conceived of as the aggregate contribution made to the national dividend, may be equal to, larger, or smaller than the private net product, conceived of as the aggregate contribution made to the income of the individual entrepreneur. Failure to recognise that his self-interest leads him to maximise the latter, and not the former, quantum has led to the

[8] Marshall, *Industry and Trade*, pp. 534 and 672.
[9] Marshall, *ibid.*. p. 45.
[10] *Vide The Economics of Welfare* and *Economics in Practice* (Lect. IV)
[11] Quotations from *The Economics of Welfare*.

optimistic but erroneous view that the "free play of self-interest, if only government refrains from interference, will automatically cause the land, capital and labour of any country to be so distributed as to yield a larger output, and, therefore, more economic welfare than could be attained by any arrangement other than that which comes about 'naturally.'" A study of possible divergencies between private and social interests is therefore highly apposite.

As the preceding summary of the analyses of important writers on the subject of State interference confirms that it is still regarded as a valid approach to posit individuals independently pursuing separate, and possibly discordant, ends, and then to determine in which circumstances properly designed restraints should be imposed in order to secure the desired equivalence between the interests of the one and the many,[12] it is to this question that the six ensuing paragraphs will be devoted. But it may well be noted at once that practical statesmanship is not thoroughgoing in eliminating all disharmonies of the sort which will be distinguished; at present it tends to act only when social catastrophes appear to be an otherwise imminent consequence.

8. Abstracting, for the moment, from any other defects of the competitive pricing process, economic theorists have propounded that its principal merit is that it involves the successful functioning of a self-regulating economy. For, through the instrumentality of prices, variations in demand will find their counterpart in appropriate adjustments in supply, and *vice versa*, subject only to a time lag and transitional friction. Similarly, world equilibrium will be achieved in conditions of international monetary interdependence. Since resources are scarce, relative to demand, and their re-orientation automatic, the factors of production will ever be

[12] Thus Professor Hayek regards as "the positive part of the economists' task, the delimitation of the field within which collective action is, not only unobjectionable, but actually a useful means of obtaining the desired ends."

fully occupied—the degree of fullness having a conventional connotation.

It is implicit in this account of the mechanism of a self-regulating economic organism that, subject to the usual lag, the quantity of money is a neutral factor in the determination of supplies and demands. It appears, however,[13] that in two significant instances these assumptions are belied in our capitalistic economy. First, the rate of interest is not perfectly elastic downwards as the decline falters on reaching an approximate 2% psychological minimum; second, the supply of labour is within limits a function of money, rather than of real, wages. Hence, even if all prices were to rise equiproportionally, an enhanced supply of labour will nevertheless ensue. The additional employment called for has to be satisfied by increased investment, but as the rate of interest is obdurate when approaching the psychological minimum, it may be that the prospective yield of capital is less than the rate of interest. That will probably be the case, moreover, if expectations of anticipated capital yields are adverse, in which event savings will find their way into money holdings rather than into investment, so that unemployment will persist.

One solution to this impasse is to force down the rate of interest, but, owing to its downward inflexibility, it cannot be achieved by monetary measures alone. Mr. Keynes has accordingly proposed, as the only effective solution, particularly in the present era of declining populations and a host of unimportant inventions, that State direction of investment funds should be undertaken, and that the propensity to consume, rather than to save, be strengthened by income and inheritance taxes and by social service expenditure. As a greater equality of incomes will facilitate saving by the poor, the success of the scheme of control envisaged may possibly require that the State also foster organised consumption.

[13] The ensuing argument is a simplified version of certain elements of Mr. Keynes' *General Theory of Employment, Interest, and Money.*

9. In one act the non-conformance of interest rates and the supply of labour to the assumptions of a free competitive economy has, therefore, impaired the system's assumed tendency towards general equilibrium. But there are also other defects in the process of competitive price formation. It is in the essence of competitive pricing that the hoped-for results are realised in the long run, while adequate account is not taken of the permanency or otherwise of the forces which impinge upon demand and supply. Anti-dumping legislation and the Exchange Equalization Funds are prominent examples of State action resorted to in order to counteract fleeting influences productive of temporary disturbance. The State is, however, notoriously disinclined to expedite adjustments which may be achieved ultimately. True enough, customs protection is an important exception; but while protective policies were largely directed in the past at overcoming the obstacles to instantaneous redistribution of productive resources in order to shift the national income to a higher level, the contemporary motive is more generally contained in a belief in the imminence of war.

Another significant defect in the competitive pricing process is that prices are not determined with due regard to the adverse or desirable influences which are exercised on other fields of enterprise by the employment of a factor in a particular industry. Thus, "it sometimes happens that only a portion of the benefit or damage due to a person's private action is reflected in the reward that that person receives; and, consequently, that he tends to carry that action less far or further than the general interest of society requires."[14] It is evident that in a world of inter-related individual activity it is not easy to instance circumstances in which the actions of an individual are necessarily incapable of producing external economies or diseconomies; normally, the individual may either not enjoy the full benefits which result from his actions, or he may escape an exact retribution for

[14] A. C. Pigou, *Economics in Practice*, p. 118.

their ill-effects, as others participate in the enjoyment of the benefits or are partly afflicted with equally undeserved penalties. From a social standpoint, investment in, and output of, the pursuits in question will then respectively fall short of and exceed the ideal volume; and measures to overcome occurrences of either character are obviously required. Stated in general terms, an ideal position would be achieved if, by a suitable expansion and contraction of the several economic pursuits, the average net external economy (or diseconomy) is made the universal position.[15]

10. A further source of divergence between individual and social interests is the ineffectual operation of the self-interest of producer and consumer. It is basic to the theory of price formation in a perfect competitive market that the self-interest of producers will lead them so to invest their resources that marginal private net products are the same in all possible directions; for, if not, it will be profitable to exploit the relatively more remunerative openings to a further extent, and *vice versa*. Moreover, as demand will be perfectly elastic, investment must necessarily be pushed to such lengths that the product becomes subject to a rising supply price—as, before that point is reached, each additional unit of output sold at the uniform price should yield a profit, if there is a profit at all. Furthermore, firms adhering to prices in excess of the competitive level will fail as consumers' demand is the final arbiter.

In considering the efficacy of self-interest as a force impelling progress, it may be well to cite Marshall's related view of the principle of substitution. "The principle," he writes,[16] "does not indeed act without hindrance: It may be weakened by want of enterprise, of it may be softened by a general unwillingness to part with old associates. But it never ceases to act and it permeates all the economic adjustments of the modern

[15] *Cf.* the further analysis by R. F. Kahn for the case when methods of production are not ideal. *The Economic Journal*, March, 1935, p. 15.

[16] *Principles of Economics*, pp. 404–5.

world." In recent years genuine individualism has been greatly lessened through the growth of public companies, and, consequent on the wide diffusion of ownership, the body of shareholders is impotent, so that the sum total of independent individual endeavour is lessened. It is at present also the popular conviction that private enterprisers are incompetent and that the spirit of enterprise is no longer what it was. In part it may be a psychological reaction to increased authoritarian efforts in the social interest. For instance, the majority finding of the 1935 South African Customs Tariff Commission[17] mentions that there is a tendency to apply for further protection whenever the market is invaded and this "tends to weaken that spirit of self-reliance and that initiative without which protected industries will never achieve an economic basis of production." Furthermore, as has recently been stressed,[18] a fundamental conflict exists between the amount and the quality of work done in conditions of *laissez-faire*; for the desire for leisure operates strongly and, by increasing the inelasticity of demand in terms of effort, it tends to make highly-paid quality workers work less. It may be concluded that, in so far as hours of work are increasingly regulated scientifically so as to maximise output, the ill-effects of the tendency for the quality of work to fall are counteracted.

In the absence of effective stimuli the profit motive may well be expected to weaken, but this will be less probable if the entrepreneur is himself liable to substitution at the instance of consumers. It has, however, become patent that the direction exercised by consumers' demand is an uncertain one, owing to irrationality and because the connecting link supplied by intermediaries has been gravely impaired by the development of the more persuasive methods of trade promotion.

11. Even if it were possible to take an optimistic view of the dual control exercised by producer and

[17] U.G. 5 of 1936; para. 239.
[18] R. F. Harrod, *Economic Journal*, March, 1936.

consumer, it has been fully realised that the prerequisites for its faultless functioning do not really obtain. The scope of State interference is thereby extended and the resultant action may be designed either to neutralise the excesses and shortcomings of the automatic control or to assist in shaping the appropriate underlying conditions. Thus, the assumption of rationality has long been regarded as invalid in so far as long-term policies are concerned owing to the unwarranted under-estimation of future satisfaction. As the remedial measure of lengthening the span of human life is of limited application, the desired ends have often been secured by other means. But irrationality of action is a very normal characteristic of all phases of life. This is well evidenced by the uncertain dictate of consumers' demand, while, in so far as producers are also liable to commit cumulative errors of optimism and pessimism, the case for State interference is appreciably strengthened.

The further over-riding condition of comparable utilities is also not present in a world noted for its lack of homogeneity. The division of society into classes is notably inherent, and the resulting cumulative inequality of wealth and power presents a fundamental problem which it is endeavoured to modify by progressive but non-confiscatory taxation and by the devotion of the proceeds to the rendition of free social services. Neither may the remaining conditions which are postulated as requisite for the effective operation of free competition be taken for granted. Mobility of the factors of production is rendered imperfect by the presence of costs of movement, by the prevalence of ignorance, by the imperfect divisibility of factors and owing thereto that they are demanded in more or less precise proportions. Accordingly, "the tendency to equality of returns degrades into a tendency to limitation of inequality."

12. While it has been found that the State should interfere in quite a variety of circumstances in a continuum of simple competition owing to conflicts which occur between the economic interests of members of

society and society itself, the list of instances is still incomplete because the assumed unimpeded entry into trades is a highly imaginary assumption. The chief obstructive factors have been categorised as[19] the inherent paucity of natural ability, inability to afford training, inadequacy of capital and business influence, incomplete data respecting business openings, and the goodwill of pioneer undertakings. These deterrents do not operate with uniform intensity in all situations, but they may occasion absolute monopoly. This occurs whenever a single seller occupies a dominating position in the market of his product and its substitutes; he is then confronted by an inelastic demand, so that, instead of accepting the free market price, he will so influence it as to maximise profits by a restriction of output. The ensuing social detriment is apparent and the need for State interference is obvious.

The methods and results of such interference are various. In the present context it will suffice to instance that it may take the course of prohibiting monopoly, of usurping, or of regulating it. If the natural resources of an industry are of concentrated occurrence or the optimum volume of "initial and supplementary investment" is of substantial magnitude, monopolistic control may well be inevitable, and even desirable; moreover, if it concerns an industry satisfying a primary social need, State ownership is perhaps the proper solution. It may also be noted that insurmountable difficulties have been experienced in connection with the effective operation of anti-monopoly legislation. Accordingly, sanctions against monopolistic exploitation frequently take the form of regulation and control, although in practice this means of coping with the problem also bristles with shortcomings. However it may be, the prevention of monopoly is not to be commended in those instances where, with the aid of discriminatory prices graduated in accordance with varying consumers' preferences, an economic supply can be maintained, whereas, in condi-

[19] M. Dobb, *Capitalist Enterprise and Social Progress*, Chapter 6.

tions of free competition, no output would be profitable as a falling supply price cannot then be conceived of.[20] In this regard it has been emphasised that, for small outputs, every commodity must be subject to falling average costs as some element of fixed costs must necessarily exist; "there must therefore be a large number of non-existent commodities which would be introduced, under an ideal distribution of resources, and it does not follow, because the output of each would be small, that in the aggregate they would be unimportant."[21]

13. But neither perfect competition nor absolute monopoly is characteristic of our society. Although it has been substantially true in the past that, insofar as primary products and gold are concerned, the individual producer can vary output with impunity without influencing the general price, it is a common attribute of manufacturing and service industries that the elasticity of demand appropriate to each source of supply occupies a position intermediate between zero and infinity. The impediments to free entry, the "homologous" character of services and industrial products, spatial differences in transport costs, the goodwill created by persuasive marketing, the fact that buyers are in any event not marginal at all times—all these factors tend to render the market characteristically imperfect. In consequence, the beneficial results, otherwise expected from competitive price formation, are *pro tanto*, rendered inapplicable.

In a perfect market producers would be compelled to sell at market price; for, if not, the perfect elasticity of demand will ensure that the individual seller either loses his entire sales or captures the entire market. Similarly, each source of supply would have to expand until the product becomes subject to a rising supply price. In the presence of market imperfection there is, however, no such automatic adjustment which compels producers

[20] Joan Robinson, *The Economic Journal*, September, 1935.

[21] In criticising this view it has been remarked by Professor Hutt that the ensuing diversification would cause productive wastes which simplification of consumers' goods would avoid. *Economic Journal*, March, 1936.

to adhere to a price determined by forces over which each one of them has no control, for, within limits, the downward sloping demand curve will ensure that adherence to a higher price does not involve total loss of sales. On the same ground it is not automatically imperative that production be extended to the point of increasing supply price, in which event existing capacity will not be used to full advantage. Finally, while equilibrium would be sought by confining production to the output given by the intersection of the marginal revenue and marginal cost curves of the source of supply, the ability to exercise some degree of price control is consistent with the emergence of excess profits on account of the price exceeding average total costs; a variety of factors would, however, operate both to modify and to aggravate the phenomenon of excess profits.

It is evident that the prevalence of market imperfection widens the scope of economically justifiable State action very appreciably. For, on account of the conditions mentioned, it is no longer feasible to express satisfaction at measures for the preservation of free entry into commerce and industry and for the maintenance of acquired business rights, without urging simultaneously that steps be taken to prevent the imperfect utilisation of productive capacity which, it seems, is generally occasioned, and to place an effective check on further monopoly profit. Preventive measures directed towards these ends will cover a major portion of economic life and will be correspondingly difficult. Indeed, one is tempted to remark that absolute monopolies are preferable in that they are easier to control. As preventive action would diminish the capacity of industry to cater for a more diversified social demand, the choice involved is closely related to that which attends a decision to induce approximate equality of incomes: In both instances the resultant social gain would be at the cost of the classes having larger incomes with a greater want-satisfying power.

14. In terms of the foregoing analysis the sector of economic activity in respect of which no State interference

is necessary must be very limited, if, indeed, there is any such unattainted sector. Further, it is well to recall that the range of legitimate interference has been established with reference to economic criteria, as intervention prompted by a consideration of ultimate ends is not of direct concern to economists. But, if the degree of intervention necessary from the economic standpoint is as extensive as appears to be the case, then it no longer seems logical that the policy of the State, in regard to the harnessing of the unregulated flow of economic conduct, should continue to bear an opportunistic complexion. This does not imply a disbelief in the obvious desirability of having a beneficent self-regulating economic organism rather than a regulated economic organisation calling for diligent attention and constant adjustment. Indeed, even if the tendency were towards the emergence of a dependable self-regulating order, it would seem preferable merely to ease its imperfections in conformity with the celebrated view that State action should be confined to the elimination of incidental discrepancies between individual and social economic interests. The theory in question has, however, been shown to rest on a dual misbelief: First, in the world as it is known to us, the expectation that the competitive pricing process functions with an approach to accuracy, over-estimates the capacity of the free competitive system; second, it rests on a presumption that, although individuals pursue their separate ends independently, their interests will, nevertheless, be predominantly alike so that the restraints necessary will not, in practice, be illimitable. It is evident that the second premise is tantamount to advancing the theory that there is at least a tendency for the emergence of a community of interests.

In determining the validity of any such expectation, one is immediately confronted with the diametrically opposed sociological view [22] that " evolution consists in a movement from a state in which the various interests are fused to one of ever-increasing differentiation and

[22] M. Ginsberg, *Economica*, February, 1933, p. 36.

multiplication of distinct associations." Although the social structure displays an holistic content, it is directed towards the creation, not of one, but of a multiplicity of wholes. This interpretation appears to be very realistic, and, since experience tells that the different groupings are not stable or undivided, it must be taken as evidence that individuals are incapable of forming wholes, either in the restricted sense of associations, or in the broad one of communities, without the aid of some mode of coercion.

Having regard to the preceding account of the nature of our social order, it does not seem invalid to assume that individual ends are not altogether separate, "and either forcibly restrained or miraculously compatible," but, to a varying degree, integrated and held in common.[23] It is precisely this circumstance which explains why the task assigned to the State of harmonising the economic interests of each and all of an assumed unintegrated plurality of individuals, has not in practice appeared as obviously impossible of achievement. But, as has been shown, divergencies between the interests of the individual and that of the appropriate group, as well as conflicts between the groupings themselves, are inescapably inherent, and probably so numerous that there is a *prima facie* case for continuous State interference. It then becomes a prime duty of the economist to show, not when collective action is necessary, as the presumption is that such always tends to be the case, but to indicate when the divergence of interests is so negligible that State interference may, with advantage, be dispensed with.

15. The failings of our competitive economic order, however, merely induce its protagonists to plead for the purposive perfection of competitive institutions: "International liberalism is not a plan that has been tried and failed. It is a plan that has never had a full chance."[24] Moreover, the argument almost carries conviction as the actual results of the imperfect operative régime of free competition are not altogether unsatisfactory, while the

[23] Talcott Parsons, *Quarterly Journal of Economics*, May, 1934, p. 518.

[24] Professor Robbins, *Economic Planning and International Order*, p. 233.

formal technical perfection of the competitive device must inevitably excite one's admiration. Thus, in principle, it is capable of making the best use of scarce resources, of which equi-marginal returns are the criterion; of taking account of individual idiosyncrasies, since the free market permits of the satisfaction of wants in an order which conforms to the scale of values of each individual, subject only to the limitation imposed by the co-existing scarcity of resources and multiplicity of needs; and, of providing a productive and distributive organisation which adequately surpasses the difficulties of adaptation arising from the obstacles of form, space and time.

Unfortunately, the competitive system is powerless to overcome, amongst others, the following three quantitatively important factors which preclude the complete realisation of the promised results. First, purchasers exercise their common right of free choice by the essentially disharmonious process of outbidding one another in a market which is not only one-sided—like Soviet and Nazi elections—in that positive demands alone carry weight, but is also typified by "plural voting,"[25] owing to the fact that inequalities are characteristic of a system which is based upon the free enjoyment of personal earnings and of the income yielded by cumulative investments. The competitive process, therefore, operates to the detriment of whoever is lacking in inherited possessions, training or good fortune, and perpetuates inequality of wealth. It is, of course, possible to liquidate the consequent unideal state of affairs by either reducing the scarcity of resources or by divorcing personal incomes from individual productivity and private property rights. But the two methods cannot be applied simultaneously without destroying the competitive order, since collectivisation and equality of purchasing power, by rendering nugatory the basic motive of self-interest, would cause general impoverishment, if freedom of choice is retained, as long as human beings are not standardised to type.

[25] As Dr. Dobb calls it, *vide The Problems of a Socialist Economy, The Economic Journal*, December, 1933.

In order to avoid this result, the system of rewards commensurate with the energy and ability displayed by every individual, must be retained so that extreme poverty and wealth continue to exist side by side. At best, advocates of free competition are, therefore, able to point to the rapid economic progress which the working model of their system has induced, and to infer that "the toleration of inequality is surely a small price to pay for the reduction of poverty."[26]

Second, with regard to the maladjustments distinguished in paragraph eight, Mr. Keynes has suggested that a zero interest-rate may be employed to solve the problem of inactivity which results from negative discrepancies between the marginal productivity of capital and the money interest-rate. However, as that solution is only appropriate to the existence of a plenitude of capital, it would result in a vast misdirection of resources—whereas the essence of the case for free competition is that equality of marginal returns is ensured. It should be noted, further, that the proud claim that the competitive system makes the best use of scarce resources, is in practice seriously frustrated by the importance of corporate savings. In present-day England "the private incomes of the rich have ceased to be a source of saving, and indeed an appreciable part of the institutional saving through companies, etc., is used up in meeting the capital consumption of the well-to-do"; while, in regard to companies, "of each additional £1 of income . . . on the average £0·46 will be distributed in dividends and the remainder added to reserves."[27] Funds placed to reserves involve no interest charge and can be devoted to projects with a marginal productivity below the average without the company sustaining a loss; but, such misdirection of resources is positively anti-social, and may well be of widespread occurrence.

Third, the growth of the joint-stock form of organisa-

[26] Professor Robbins, *op. cit.*, p. 266.

[27] Colin Clark, *National Income and Outlay*, pp. 254–5.

tion, of corporate savings, and giant mechanised projects, has contributed in making the competitive solution institutionally inapplicable in many spheres, while a forcible reversion to many independent competing enterprises is inconceivable as the factors mentioned are an inseparable accompaniment of capitalistic economic progress.

16. In opposition to the existing economic order, a powerful pro-socialist movement has arisen in favour of a planned or centrally directed economic organisation. In its extreme form, the idea of a socialistic régime arose initially as a reaction to the lurid contrast between abject poverty and ostentatious luxury in our semi-competitive society, and although it is not expected that a socialist order will eliminate scarcity, it is contended that such a system would more readily lessen the degree of want by means of a higher technical efficiency and the more equitable distribution of wealth resulting from collective ownership and a method of reward according to needs. But, from a scientific point of view, the appeal of a planned society lies therein that it is consistent with the cardinal principle that conscious decision is preferable to a blind reliance on automatism. While noting the validity of that mode of approach to the economic problem of adjusting scarce means to limitless ends, it is proper to add that it is not necessarily worth while to abandon an automatic device, merely because it is such, in favour of a system which is purposively directed. Moreover, having regard to the complexity of the organisational structure which would have to be substituted in a centrally directed economy for the sensitive mechanism provided by the existing economic system, in order to co-ordinate the productive apparatus and the myriads of variegated localised wants, it is very likely that this factor is given inadequate weight by planning enthusiasts ; alternatively, it is evaded by the facile assumption that domestic repair work and other small-scale enterprises should be left to private initiative.[28]

[28] *Cf.* R. L. Hall, *The Economic System in a Socialist State.*

Regarding the higher productivity of a socialist State, it is true that the cumulative loss caused by the restraint at present exercised by vested interests on the utilisation of improved technological methods will disappear with collectivisation, while a successful controlling body would also keep the productive structure fully occupied. But, in the absence of effective choice by producers and consumers, the authoritarian controllers would have no means of ascertaining whether one project or one combination of resources is more economic than alternative investment plans and factor-combinations serving the same purpose. The national resources may, therefore, actually be fully occupied in pursuance of an arbitrarily determined plan, but other arrangements may well involve the use of a lesser quantity of resources and yet satisfy more urgent needs.

Owing to the cogency of the charge that, if economic values are not ascertained, misdirection of resources and impoverishments are unavoidable—as in Russia[29]—the attempt has been made, by resuscitating a smaller or larger degree of competition, so to reconstruct the hypothetical socialist order as to make rational calculation possible. For instance, that result is achieved if free choice of occupation and a market for consumers' goods are assumed, as the prices of the available resources appropriate to the observed demand curves of consumption goods may then be determined, while the most economic factor-combinations are also ascertainable through successive approximation by applying the principle of substitution.[30] As the task involved is stupendous, a competitive market for mobile resources may, in addition, be postulated, and on the basis of the resulting price notations of consumables and mobile productive resources, the central administration can then arrange a plan which conforms to the criterion of equi-

[29] *Cf.* B. Brutzkus, *Economic Planning in Soviet Russia.*

[30] *Cf.* H. D. Dickinson, *Price Formation in a Socialist Community, The Economic Journal*, June, 1933.

marginal productivity.[31] It does not, however, seem possible to avoid two arbitrary decisions, of vital importance to economic well-being, if private saving and an uneven distribution of purchasing power are virtually prohibited. Thus, in a society based on private ownership, the volume of savings—particularly by small savers—is essentially the product of conscious choice between alternatives; this choice is not avoided in the socialist State, but the decision is quite arbitrary. Similarly, the length of the working day is at present determined by collective agreement—subject to general humane laws—so that workers are in a way able to balance the utility of additional income and the disutility of more work. Without prejudice to the question whether the urge of self-interest can in time be fully substituted by other stimuli or forthwith by a collectively enforced discipline, many are bound to slacken or laze perpetually if the facilities enjoyed by the individual are not related with approximate accuracy to his output. Hence, strict discipline would have to be exercised, and fixing the working week will be an important element of control; but, in fixing hours of labour, it is dubious whether operatives will be allowed to balance the marginal utility and disutility involved: in a planned State there will probably be no alternative.

The above-mentioned pricing-system is not free of the defects to which it is subject in a freely functioning capitalist economy. Thus the technical preference for mammoth business units will still render perfect competition for mobile resources institutionally impossible. Moreover, despite the lessening of plural voting and persuasive selling, consumers' choice will be even less spontaneous in a socialist than in a capitalist community and the direction supplied by market forces correspondingly less reliable, since their inclination to censure consumers' preferences are bound to induce bureaucrats and dictators to remodel social habits. There is, how-

[31] *Cf.* E. F. M. Durbin, *Economic Calculus in a Planned Economy, The Economic Journal*, December, 1936.

ever, no reason to assume that dictatorially prescribed habits will be any better than the historic sumptuary laws. Furthermore, in the long run—after numerous new products have been introduced—the reality of the concept of consumers' sovereignty will further diminish, owing to the fact that dictatorial persuasion will be more effective than competitive advertising and that, in a planned economy, the volume and application of savings are a simultaneous advance decision. While consumers' panels and questionnaires may be of service in ascertaining new wants, there is some reason to fear that new products will be largely the outcome of decisions based on purely technological considerations ; but whether or not that is the case the resulting innovations will certainly be ensured of a sustained use, despite emergent social habits and individual idiosyncrasies. On the other hand, depending directly upon the restrictions on private saving, choice of occupation and consumers' preferences, capital accumulation and investment as well as the output and disposal of consumables, can be better co-ordinated in a planned economy. In principle, the tempo of production can, in that way, be regulated with greater uniformity than is now the case, so that the amplitude of cyclical fluctuations, if any, will diminish. In addition, the restraint on investment at present exercised on the downward-inflexibility of the money-rate of interest, will disappear.

17. It has been shown that the advocates of a thorough competitive order are more impressed by the perfection of their formal structure than concerned with the salient circumstances which seriously detract from the practicability of their proposal to perfect competitive institutions. It has also been demonstrated that the exponents of centralised planning show convincingly that a pricing mechanism is possible in their type of society only by reproducing the competitive device—subject to the proviso that inequalities of income and private investment remain limited. While it is not clear how detailed the unified plan, prepared in accordance with the notations

afforded by the pricing-system, will be, or to what extent the mechanism supplied by market forces will be used to undertake the actual disposal of goods and services, it would seem that the planned economy which has been considered, could be described quite unambiguously as a planned competitive economy. Yet, the two schools of thought, despite the marked similarity of their respective systems, regard each other as antithetic, attacking the competitive order because it is abstract and the planned competitive economy because it is a mere attempt "to prove that 'in principle' a solution is conceivable,"[32] while the one group doubts the practicability of the solution of the other although the same equilibrating mechanism is employed by both. This surprising result is due to the planners having radically altered their plea, the planned competitive economy which has been evolved in reply to the onslaught of the classical economists being very different from the undefined planned State which excites popular support.

However, it would seem that the planned socialist economy takes over so much from the existing economic order that it is unnecessary to stage a social revolution in order to attain it, particularly since the chief improvements which it incorporates are not unattainable by more modest means. For instance, the fact that saving has become predominantly institutional and almost automatic, appears to lessen the difficulties which beset the co-ordination of saving and investment and a more even redistribution of incomes. Furthermore, although it is unreasonable to advocate the undiluted application of a theoretical competitive system, merely because it promises good results and regardless of the inability to establish the conditions necessary for their attainment, it has transpired that to dispense with the admirable mechanism which has been achieved by adhering to the main principles of that theory will have chaotic consequences. The pricing-system of the existing economic order should, therefore, be retained, but, if competitive institutions

[32] Hayek, *Collectivist Economic Planning, Present State of the Debate*, p. 202.

cannot be perfected—with the aid of a social revolution or without—it also seems logical that conscious decision should be used to supplement the forces behind supply and demand when they produce wrong results. It may well be that "nobody has yet demonstrated how planning and competition can be rationally combined,"[33] but Governments have nevertheless adopted a course which is logically sound in embarking upon that task: although the major part of the economic programme of most States has in recent years been motivated by the urge to self-preservation, the constructive portion actually embraces the objective of reinforcing competitive forces when they fail.

It is regrettable, though, that many economists and most business men dogmatically deny the validity of State interference as such and adopt an indiscriminating critical attitude. Presumably, effective co-operation would be facilitated and uncertainty removed, if the State were to define the general intention of its economic policy as involving the maintenance of competitive agencies, allowing them to operate within specified limits, and, active concentration on supplementing and adapting the imperfectly functioning market forces.

18. Seemingly, however, the opposition emanating from business men against any extension of the scope of State action—and regardless of their own contraventions—is not really based on logical considerations; rather, as in the days of Adam Smith, their opposition is the product of a well-founded distrust of the ability of Governments to act correctly. While it has hitherto been assumed that one may rest assured as to the favourable conclusion of the specific acts of authoritarian interference which economic analysis may suggest, that assumption is really only valid as a means of simplifying an analysis. Various considerations suggest that the cures, as attempted, may be worse than the afflictions. While there is no decisive reason to doubt that, in civilised countries, official probity is not at a discount (compared

[33] Hayek, *op. cit.*, *p.* 241.

with business morality), the bureaucracy, although in command of extensive resources and possessing much relevant data, cannot be suspected of being endowed with more acute prescience or with a more realistic imagination than private undertakers; that State action at the instance of the bureaucracy has often been fundamentally at fault and a drag on the forces which impel progress and change is only too evident. Furthermore, while the acumen, energy and loyalty of leading civil servants is often considerable, officialdom, taken collectively, though certainly more punctilious, is a less efficient executive organ than the managerial side of private business. This conclusion is amply established by referring to the endless line of authority in civil services, resulting in an ingrained custom to pursue matters at a leisurely pace; by referring also to the universal practice of nepotism by governing politicians and senior permanent officials alike; and, finally, to the obsolete method of remuneration, which, being inelastic both upward and downward, places a generous premium on dullards, and, as automatically, a restraint on individuals of excellence lacking in political, marital or hereditary standing, or ill-gifted with the more endearing type of social propensity. While these shortcomings are often avoided by the creation of *ad hoc* boards, technically immune from pressure, composed of individuals of proved ability and initiative, and operating over a field not circumscribed—inconveniently and with uneconomic results—by the limited jurisdiction attaching to political authorities, elaboration of that method results in a lack of unity and a pursuit of inconsistent policies.

19. It may be concluded that reform of the administrative personnel serving the State, is a step of primary importance (and one in which outside advice would be very efficacious). But it is equally necessary to create an administrative system which would facilitate consultation and joint effort, in an endeavour to secure the active co-operation of business men as interventionist operations will be more successful if they are approved of than when

they are opposed on principle. In this connection it has been suggested that, instead of adhering to the atomistic social order on which the classical theory of State interference is based, the existence of group interests might advisedly be made the point of departure.

It is, therefore, apposite to indicate whether any practical advantage will result from the object of State interference which has been formulated, namely, of assisting in the creation of common ends and of harmonising group interests *inter se*. It is self-evident that the task of the State will be considerably eased if it need not be directly concerned with the compatibility of the individual interests of its millions of subjects, but only with those of a relatively limited number of more or less integrated groups. If the State were to participate directly in the process of evolving group interests, instead of acting arbitrarily or in accordance with a mere majority opinion, the contact between Government and the body economic would become less superficial, and the occasion would present itself of adjusting conflicts between the individuals in each economic grouping on an equitable basis. The resulting closer insight would also serve to modify the principal objection which men of affairs rightly have against any extension of the functions of the State. Greater understanding and a more incisive acquaintance with day-to-day (and even long-period) developments on the part of public authorities, as well as a fuller measure of mutual trust and co-operation between private enterprise and officialdom, are indispensable if the State is to intervene with success in the many instances in which interference is imperative, but not forthcoming.

20. Finally, it is perhaps desirable to translate the method of control under discussion into concrete terms by indicating in how far interference is already conducted with reference to group interests. But at the outset it may also be mentioned that in practice it would be expedient to take account of individual economic units if appropriate collective interests cannot be readily distinguished. In the Western democracies where the theory

that State interference should remove disharmonies between individual and social interests has had most sway, the adherence thereto has been largely formal. On the one hand, the legal doctrine of public interest is applied to offending individuals, and, on the other, group interests have received more than tacit recognition from Government departments, whose contact with trade and industry is mainly through the medium of representative associations. But this generally means that account is taken of the majority opinion which has emerged on its own accord. If, however, interference takes place on the initiative of the State, it is often in consequence of political agitation. The weakening of the sanctions available to the group to enforce its will on a recalcitrant few, by the operation of legislation curbing practices in restraint of trade, also results in the maintenance of divided interests and further estranges the State from trade and industry. In these circumstances, State interference in the conduct of economic life is often faulty, negative in effect, and the subject of grave distrust and dislike.

It also occurs, however, that economic group interests emerge under State supervision and encouragement. Isolated instances exist in most democracies, but the most imposing attempt is the American New Deal. Its essence was to enable the elements of each more or less distinct economic group to formulate effective plans which were then proclaimed as codes for compulsory observance. While the objective of the American system of regulation was economic recovery, the procedure adopted is capable of further extension and may prove serviceable in communities which are essentially evolutionary and democratic.[34]

In the existing totalitarian States the degree in which integrated ends are fashioned and controlled is very comprehensive. Not only is the individual deprived of the prerogative of devising and prosecuting his primary

[34] It will be observed that the question whether group control is at all feasible in reference to extra-economic activities, is left out of account.

aspirations, but the long-term planning undertaken in the economic sphere is calculated to promote arbitrarily chosen ethical ideals. As the economic object of maximising output with a minimum of effort then tends to lose its value, the criterion of equi-marginal returns declines in relevance. It may be subordinated as in the two large Fascist States of Europe, where the ordinary economic motives are left to operate as best they may, or, as in the Soviet, it may be substituted by unguided centralised planning.

CHAPTER I

SOUTH AFRICAN SAFEGUARDS AND RESTRAINTS TO FREE COMPETITION

General

1. In representative democratic communities, such as the Union of South Africa, it is usually considered to be a cardinal principle that individual liberty of conduct should be safeguarded and that the attendant power generally to compete freely with other citizens should be sustained. Beyond noting that in the Union private property enjoys legal recognition, and that the freedom of bequest is similarly secured, no further attention will be given to these matters except in so far as may be incidental to the analysis of the endeavours of the South African Government to uphold the basic principle of free competition. As a further preliminary approach to the discussion it has to be remarked that the liberty to enter into rivalry must necessarily be reinforced by permitting unrestricted entry into economic pursuits ; it also involves the provision of protection against unfair ousting from the selected avenues by other participants. It will be apparent that safeguards directed against undesirable methods of elimination and the toleration of other business expedients serving to perpetuate business goodwill, may well border on the grant or tacit approval of the acquisition of monopolistic rights. While it will be indicated that these effects have been accomplished by Government, no attention will be given to the general fact that a fundamental conflict exists between the notions of free competition and sanctity of property rights, in that the latter imparts a differential advantage and results therein that competition is not free but hamstringed and blatantly unequal.

Licensing of Enterprise

2. In order to establish that entry into business openings is unrestricted, it is necessary to give consideration to the licensing of enterprise in the Union. To be sure, all varieties of enterprise are not subject to licensing control; thus, the exemption of employees, manufacturers and agriculturists from any licensing formalities immediately reveals that the scope of licensing is very circumscribed and freedom of enterprise the more general condition.[1] But licensing is applied in the case of trading, professional and occupational pursuits. As these licences constitute an important source of revenue to the Provincial Administrations, the governing Licences Consolidation Act, No. 32 of 1925, distinguishes between a small number of Union licences,[2] possessing a currency throughout the Union, except if specifically restricted on issue, and a more comprehensive schedule of licences, ceded to the Provinces and valid within the respective Province. This differentiation between Union and Provincial licences is conditioned solely by accounting requirements, and, in order to establish that freedom of enterprise is a salient principle even in the licensed section of the South African economy, a different classification of the data had to be made.

3. A re-analysis of the Union and Provincial licences issued during 1934–35[3] reveals that there are three distinct classes: (*a*) In respect of 40 occupations,[4]

[1] Aerated or mineral water manufacturers, bakers, launderers and millers have, however, been singled out and require to be licensed—probably for hygienic reasons. Furthermore, factory premises must be registered, but the object is to ensure compliance with the Factories Act, No. 28 of 1918. Dairy produce factories have to be registered in terms of Act No. 35 of 1930, and every effort is made in administering the Act to restrict the number of factories on rational principles.

[2] That is, licences in respect of agents of foreign firms, bankers, commercial travellers, sellers of fireworks and newspaper publishers.

[3] Owing to their special character, boiler, customs and excise, company, mining, dog, motor, racing and entertainment licences, as well as authorities to possess firearms, have been excluded.

[4] The principal ones are: Accountants, agents, apothecaries (Cape), architects, auctioneers, boarding-house keepers, brokers, commercial travellers, speculators in livestock or produce, fishing and game licences, land surveyors,

embracing 30,842 licences in the year under review, entry is not subject to any other statutory barrier than payment of the prescribed licence fee. (*b*) The qualifications for, and the conditions of entry into, eighteen other occupations, are determined by *ad hoc* enactments. The relative group comprises, for instance, the legal, medical and dental professions, the trade in precious metals, billiard-table keepers, appraisors and assessors (designated by the Supreme Court), banking insurance and building society business, electric power schemes and the traffic in armaments. It is apparent that entry into these professions or trades, should rightly be subject to the strict supervision of the respective professional bodies, the police, government departments or central boards (as in the case of electric power licences). (*c*) The third group relates to eighteen trades accounting for 75,365 licences, which require to be licensed by the respective authorities constituted in terms of the Provincial legislation. With the exception of pawnbrokers, the group embraces the wholesale and retail outlets of the Union and certain trades possessing a close connection with the nation's nutrition and public health.[5]

4. The preponderance of the third group of licences is liable to lead to the mistaken conclusion that entry into a substantial field of commerce and industry is subject to stringent control. Any such belief can, however, be dispelled by a brief review of the basis on which the licensing authorities operate. The case of liquor licences is quite different, but as the liquor licensing problem has been explored exhaustively of late,[6] no attention will be given to it. Suffice it to say that liquor

mealie traders, newspaper publishers, sale of patent and proprietary medicines. Professional licences have now been abolished because professional men regard them as a nuisance and an exaction, *vide Budget Statement* of March 15th, 1937.

[5] Thus the sub-groups comprise: aerated or mineral water dealers, apothecaries (except in the Cape), butchers, fresh produce dealers, general dealers, hawkers, liquor licences, motor garages, licences to sell patent and proprietary medicines (in Natal boroughs), pedlars, restaurants and tea rooms; and aerated or mineral water manufacturers, bakers, boarding and lodging houses (with annual gross receipts in excess of £1,000), eating houses, laundries and millers.

[6] *Vide* A. J. Norval, *The Tourist Industry*.

licences are granted by local Liquor Licensing Boards and consideration is given to the adequacy of existing outlets while a minimum number of parliamentary voters are necessary for the grant of a bar licence.

5. In virtue of the Licences Consolidation Act, No 32 of 1925, the licence fees payable in respect of the third group of occupations referred to above (excluding liquor licences) were rendered uniform in all the Provinces. This does not imply that the revised fees were determined in some pre-eminently scientific manner, and the Minister of Finance has admitted [7] that, "what we have done, more or less, has been a reasonable compromise to give the Provinces the same revenue they received before the licences were made uniform." But, while the Union Government committed itself, at the preceding Durban Conference with the Provincial Administrations, to make the assigned licences uniform throughout South Africa, no alteration was effected to the pre-existing machinery for the granting of the relative licences. In consequence the methods of control still differ in the four Provinces and the divergent systems have remained a fertile source of perplexing regulation.

6. In the Cape Province [8] applicants for controlled licences must apply for a certificate, authorising the issue of the requisite licence, to the Municipal Council, Village Management Board or Divisional Council exercising jurisdiction over the area wherein the business is to be located, or, in the absence of any such authority, to the local magistrate. Applications are only considered if the medical report on the premises is favourable and if no police objection is tendered against the applicant. If the requisite certificate is refused, the Administrator may, on appeal, issue the certificate after consulting the licensing authority concerned.

The control exercised in the Transkeian Territories [9] vests in the Chief Magistrate in consultation with the

[7] *Hansard*, 1925, column 6381.

[8] Ordinance No. 19 of 1930, as amended by Ordinance No. 35 of 1935.

[9] Proclamation No. 11 of 1922; *Government Gazette* No. 1202.

Native District Councils and Headmen. Permission to occupy a trading site is dependent upon securing a certificate of occupation which is only granted if the site does not exceed five morgen and is not situate within five miles, by the nearest travellable route, from any existing trading site, unless special circumstances justify an exception. A further radical departure is that, in order to prevent a trade monopoly, no person may hold trading licences in respect of sites located within twenty miles from each other.

In Natal the licensing control differs as between Boroughs (with a population in excess of 1,000), Townships, rural areas, and Zululand. In respect of the licensed trades under discussion, the Town Council of any Borough[10] may appoint a licensing officer, charged with the issue of certificates on the production of which the requisite licence may be issued. In the event of refusal to grant the certificate, an appeal may be lodged with the Town Council, and, apart from the provision that licences are not issuable in the event of non-compliance with the Insolvency Law or if the premises are unfit for the intended trade, the licensing officer exercises discretionary powers. It may be noted that this licensing system was derived from the procedure introduced by Natal Act, No. 18 of 1897.

In regard to Natal Townships,[11] the Town Boards are the licensing authorities and possess the same powers as Borough licensing officers, the operative legal provisions being identical. In respect of rural areas,[12] Rural Licensing Boards, consisting of a chairman and four members, are established by the Administrator for each county or other division, to control wholesale and retail licences, while a three-member Rural Licensing Board of Appeal acts as referee in the event of refusals being contested. The 1935 Amending Ordinance gives formal

[10] Ordinance No. 25 of 1926, as amended by Ordinance No. 7 of 1928.

[11] Ordinance No. 26 of 1926, as amended by Ordinance No. 7 of 1929.

[12] Act No. 18 of 1897 and Ordinance No. 4 of 1923, as amended by Ordinance No. 7 of 1929, and No. 14 of 1935.

recognition to objections made by Health Boards against licences intended for residential areas, while it also empowers the Board to attach limiting conditions to a licence, if, within a particular area, a sufficient number of similar businesses are already in operation. Control is exercised in Zululand[13] in terms of the Ordinance relating to rural areas, but the Rural Licensing Board for any proclaimed area consists of three magistrates.

The Orange Free State[14] has a Licence Certificate Board for each district, consisting of the receiver of revenue or magistrate as chairman and three members appointed by the Administrator, and the issue of any new licence is dependent upon securing a licence certificate from the Board. The nature and location of the premises, their sanitary condition, the character of the applicant and the manner in which he has conducted licensed businesses in the past, are given due consideration by the Board.

Local authorities, and rural licensing boards with a magistrate as chairman and two to four members appointed by the Administrator, are invested with the power of issuing or refusing certificates required in the Transvaal[15] for the licensing of new businesses. A favourable public health certificate on the business premises and a satisfactory police report on the applicant are required prior to the grant of a certificate. Provision is made for the issue of the certificate under the hand of the Provincial Secretary, if it was refused on the ground of the sufficiency of similar trades in a particular area. It is significant, on account of the principle involved, that the pre-existing licence control, *vide* Ordinance No. 10 of 1927, admitted of the refusal of a certificate for a native eating-house licence by the licensing authority, if the number in existence are deemed in excess of the requirements of the neighbourhood.

7. The foregoing review of the licensing control

[13] Ordinance No. 8 of 1929.
[14] Ordinance No. 10 of 1934.
[15] Ordinance No. 3 of 1932.

exercised indicates that the welter of different systems possesses the one common feature that, subject to compliance with certain minimum requirements in the interests of public health, business morality and town-planning schemes, the intention and effect are not in the direction of restricting the liberty to set up in the licensed trades. The safeguard to free competition, which is implicit in the licensing machinery in operation, does not, however, enjoy unqualified approval. Indeed, the Board of Trade and Industries and the trade perceive in it the source of "overtrading" and "undesirable trading" respectively. Thus the Board asserts [16]:

> "There is ample evidence that South Africa suffers from a multiplicity of traders . . . and a strong feeling is current in favour of the limitation of trading licences. The Board consider that measures should be adopted to limit the issue of licences to applicants who can prove that they possess sufficient experience of the business which they propose to undertake, that they possess an unblemished trade record, have an adequate capital to finance the trade which they propose to undertake. . . . In order to avoid the difficulties resulting from the control of licences by local authorities, it is recommended that a central authorising body be created."

The official organ of organised commerce [17] considers that the problem of the issue and control of general dealers' licences "has not been so much one of overtrading as of lack of any check on the type of trader which is permitted to swell the ranks of retailers . . . and there has been a not unnatural demand from these districts (suffering most) that the number of licences issued should be rigidly restricted." The journal proceeds to indicate that rigorous restriction is not feasible owing to the difficulty of finding a quota basis, while the mere creation of independent licensing boards will not solve it. The journal, however, reveals that, at a round-table conference in June, 1936, with the Provincial

[16] *Report* No. 125, 1931.
[17] *Commerical Opinion*, July, 1936, p. 89.

Consultative Committee, the Associated Chambers of Commerce recommended the adoption of the Natal scheme throughout the Union mainly because: the system has had forty years' success, the licensing officer hears applications in public[18] and satisfies himself that the grant of a certificate is in the public interest. It is proposed to investigate the Board's concern regarding overtrading and to determine whether the Natal Borough scheme possesses peculiar merits and then to remark on other proposals which have been made.

8. Overtrading connotes, in ordinary use, "trading in excess of one's capital or the needs of the market." As the present discussion has no bearing on capital requirements, but is concerned principally with the number of retail outlets, Mr. Ford's term,[19] "overshopped," will be employed in preference. The Board of Trade and Industries persistently warns against the Union becoming overshopped; thus only recently the Board declared[20] that there is a multiplicity of pumps in the petrol retail trade, involving an uneconomic throughput, but that "there is probably less overtrading in the petrol wholesale trade than the trade of any other important commodity."

9. The growing demand for a limitation of business licences might be expected to arise from a tendency for the Union to become increasingly overshopped. In regard to the petrol and motor trade it is an easy matter to subject this preconception to a statistical test, as the relevant purchasing unit is clearly differentiated. A calculation of the ratios of motor vehicles to garages and petrol pumps reveals, however, that instead of deteriorating, the position in the motor trade has improved in recent years. In 1928–29 there were 63 motor vehicles per motor garage in the Union, and 16 motor vehicles per petrol pump in 1931–32; in 1934–35 the numbers

[18] The recommendation was subsequently confirmed by a Congressional resolution incorporating the main features of the Natal Borough scheme and the Provincial Consultative Committee is reported to be considering steps to attain inter-Provincial uniformity.

[19] *The Economic Journal*, September, 1935, p. 501.

[20] *Report* No. 204 of 1935.

were 81 and 17. There are, of course, inter-provincial differences, mainly on account of the large tourist traffic from the inland to the maritime Provinces.

It is more difficult to find a purchasing unit, corresponding to a motor vehicle in the case of the motor trade, which can be employed to indicate the trend of development in the licensed group of trades. In some instances the individual is the unit, in others the family. But the population basis of comparison also raises a significant difficulty in that the different component classes possess a widely discrepant purchasing power, and the proportion between the European and non-European groups varies from place to place. Furthermore, as one business generally takes out more than one type of trading licence, the number of inhabitants per licence would be found to be considerably below the number of people per retail outlet, if statistics of retail businesses were available. Despite this defect, the two conclusions suggested by comparison on the basis of licences issued[21] cannot be altogether invalid. First, it appears that, in regard to all the Provinces, the suspected tendency that the Union is becoming increasingly over-shopped is a myth, as the number of Europeans per business licence and per general dealer increased respectively from 28 and 52 in 1928–29 to 29 and 55 in 1934–35, while the ratio of the total number of inhabitants per business licence and general dealer similarly rose from 124 and 231 to 130 and 243.

Moreover, if account is taken of the undoubted growth in purchasing power during recent years, the inference that the turnover of individual traders has increased is further strengthened. It is indeed possible that a concurrent increase in the size of firms might have served to offset the benefit flowing from an enhanced all-round custom. Probably, however, the striking progress of a few chain stores is the cause of an exaggerated impression that retail outlets have generally become larger. But,

[21] That is, the trades enumerated in footnote (3), excluding the Liquor Trade and the sale of Proprietary Medicines.

secondly, a marked discrepancy exists between the numbers of Europeans and inhabitants of all races, per business, in the several Provinces. This, admittedly, does not indicate an inter-Provincial disparity in the size of firms, but is accounted for by the composition of the Provincial populations. Thus the Cape and Natal have relatively smaller ratios of Europeans per business licence, owing in part to the temporary presence of large numbers of European visitors from the inland Provinces who are not enumerated as members of the permanent population of the coastal Provinces. Then, again, since Natal has ten non-Europeans to every European inhabitant, as against a national average of four, it is to be expected that her ratio of inhabitants to general dealers will be exceptionally high; but, owing to the larger number of pedlars operating in Natal, this discrepancy is removed when all business licences are considered. The very low ratios of the Orange Free State may well be due to a standard of income below the national average in addition to the low density of population.

10. While the first conclusion rather weakens the plea for a stricter control of business licences in order that business units may not become increasingly sub-economic, the second conclusion establishes that, owing to their evident adaptability to local conditions, there is nothing to choose between the four principal varieties of licence control which are in operation. If the Chambers of Commerce and the Provincial Consultative Committee prefer the Natal Borough scheme, the writer will not demur or approve. Some ethical defence could no doubt be prepared in support of public hearings and some plausible argument could easily be concocted in favour of licensing officers.[22] But, as hearings in camera and licensing boards can be defended with equal inconclusiveness, it would seem that, if inter-Provincial uniformity is to be the main feature of the Union's

[22] These points are emphasised in Resolution No. 14 of the 38th Annual Congress of the Association of Chambers of Commerce of South Africa, formulating the attitude of organised commerce to licensing control.

licensing machinery, the system in operation in any Province may be made of general application with no more and no less a degree of justification.

11. Regarding the criteria to which the Board of Trade would wish applicants for business licences to conform, there would, of course, be no objection against enquiring into the record of the business ethics of applicants. Business ability and experience cannot, however, be tested by any licensing authority, while the adequacy of his capital is for bankers and business creditors to decide. It would appear that, if a central licensing board is to function and if trading licences are to be restricted with a view to obtaining economic business units, the number of licences granted for each area should become of prime importance. The only feasible basis for such rigorous control would be to use turnover statistics. Turnover taxes were, however, abolished in 1925 as "an objectionable form of taxation," after having been in vogue in all the Provinces except Natal for varying periods of time, and this most informative, though ill-utilised, source of business statistics accordingly disappeared.

In this regard it deserves mention that the Industrial Legislation Commission[23] advocated that all concerns subject to wage regulation should be required to obtain a licence and that renewal should be conditional upon observance of Court orders under the Wage Acts. The Commission was apparently not aware that, under the existing licensing control and with the exception of Natal, renewal certificates are required in but a limited number of cases.

Preservation of Property Rights

12. In addition to unrestricted entry into business, free competition involves the preservation of property rights. That occurs in two conflicting ways: First, in achieving a measure of security to the possessor, the State generally enforces patent and trade mark legislation.

[23] U.G. 37 of 1935; paragraph 610.

Second, it is usually endeavoured to preserve the purity of competitive institutions by curbing certain competitive methods. While the former measure promotes monopolistic competition, the latter either reinforces it or neutralises any resultant excesses, but both endanger the régime of free competition.

13. The protection of industrial property in the Union is governed mainly by the provisions of Act No. 9 of 1916, relating to patents, designs, trade marks and copyright. In pursuance of this enactment, certain inventions may be patented for fourteen years, subject to extensions, and the patentee then acquires the sole power to exercise the invention to his pecuniary advantage. Similarly, designs may be registered, the proprietor securing copyright for five years. Trade marks may be registered for fourteen years with the possibility of extension.

While these provisions are the principal means of safeguarding the ownership of industrial property, the parallel merchandise marks laws of the Cape Province, Natal and Transvaal, as well as the cognate provisions of the Customs Management Act, 1913, the Wine, Spirits and Vinegar Act, 1915, the Dairy Industry Act, 1918, and the Food, Drugs and Disinfectants Act, 1929, also promote that end. In effect, the foregoing laws, in so far as they affect merchandise marks, involve the compulsory marking of origin of dairy produce, wines, spirits and vinegar, and while not making it compulsory that other imported merchandise bear an indication of origin, they nevertheless protect the South African entrepreneur against fraudulent imitation of trade marks and indications of origin.

14. Patent rights may be defended on moral grounds, but they are usually advocated as a means of stimulating invention, even though many inventions are not patentable while many innovations are, and would be, introduced in the absence of the inducement of the monopolistic rights grantable to the inventor. In support of patents it has also been argued that patent laws divert inventive

ability to fields of greater usefulness.[24] While there can be little doubt that the growth of knowledge has impaired the *raison d'être* of patent legislation, the fact remains that, as the monopolistic advantages which they occasion influence the pricing process, the inventors' response to the profit stimulus must be correspondingly invigorated. Hence it is conceivable that inventions are induced through the functioning of patent laws, which would not otherwise be made. As it is an accepted principle that monopoly is desirable if it leads to a sustained output of a product which would not be forthcoming under competitive conditions, inventive ability must be diverted to fields of greater usefulness by the patent system to the extent that the induced inventions are exploited.

But the monopolistic rights which ensue from patent laws is probably of lesser magnitude than those resulting from trade mark legislation. In conjunction with persuasive advertising, trade marks and designs have become a formidable instrument by which entrepreneurs can achieve a larger measure of market control; in general, absolute monopoly does not ensue, but the trade practice of acquiring purchasers' goodwill is so pervasive that the phenomenon of imperfect competition, with the attendant spectacle of excess costs and partially-used capacity, assumes great significance.

15. The Union Government is an ardent exponent of trade marks, as the voluntary national mark system recently inaugurated in reference to agricultural produce, and the prohibition of French geographical wine names with the avowed, though probably secondary, object of impelling the adoption of a characteristic wine nomenclature, bear witness. But of advertising, which is the counterpart of this system, Government is not equally enamoured. Thus, in accordance with a recommendation made by the Board of Trade and Industries in *Report* No. 105, and in the *Report of the Cost of Living Commission*, 1932, the Trade Coupons Act was passed in 1935 to prohibit the use of trade coupons and the giving

[24] *Cf. Economica*, February, 1934, where Professor Plant combats this view.

or offering of any designated benefit.[25] The Act was defended on the grounds that the issue of trade coupons, redeemable in goods other than those sold, bioscope tickets, accident insurance policies and so forth, is an unfair way of encroaching into other trades and the cause of wasteful newspaper advertising. The grant of cash discounts is, however, specifically countenanced by the Act as well as the issue of tokens redeemable in cash or goods of the kind purchased. Now the one method of establishing consumers' goodwill prohibited by the Act is a relatively unobnoxious advertising expedient, while, if a judgment may be ventured as an average shopper, the outcome of the prohibition of coupons has been to engender the use of tokens in their place, which is, after all, a rather chameleon-like revolution.

16. The *Report of the Committee of Enquiry into Advertisement of Proprietary Medicines and Medicinal Appliances*,[26] aims at the control of advertising of those articles. The report makes very impressive reading and, in this instance, strict supervision over advertisements is amenable to admirable defence on public health grounds. Thus the most objectionable features of indiscriminate advertising are that the goods concerned are often held forth as remedies for incurable diseases or as possessing an almost universal efficacy, while the unwary are induced to buy with the aid of insidious devices, such as prefixing a fictitious "Dr." to the name of the remedy advertised; moreover, many remedies are worthless and, therefore, endanger life if used for acute ailments, while the distribution of ineffective sexual remedies is particularly reprehensible. It may, however, well be that an easier method of controlling the traffic would relate to the avenues of sale rather than to advertising facilities. The preponderance in South Africa of licencees selling patent and proprietary medicines over licensed apothecaries,

[25] G.N. 1805 of 1935 declares articles packed with tea or coffee as a prohibited benefit. But the prohibition is ineffective, as a pound of tea and a teaspoon may be sold as a joint product at an inclusive price.

[26] U.G. 19, 1936.

namely, 6,777 *versus* 872 in 1934–35, is thought to confirm this suggestion. However, the Proprietary Medicines and Appliances Bill introduced in 1937 implements the findings of the Committee of Enquiry instead of limiting the retail outlets.

Unfair Methods of Elimination

17. There remains the general question of unfair methods of elimination. The Board of Trade and Industries has commented on this aspect in several reports, and, as it functions as advisory body to Government in such matters, the powers of the Board and its habitual mode of regarding business practices merit consideration.

An account of the statutory position must, however, commence with the Cape Meat Trade Act, No. 15 of 1907, which declares unreasonable restraints in the Cape meat trade illegal and contracts for the arbitrary control of prices unenforceable. Moreover, Act No. 48 of 1934 prohibits unreasonable restraint of trade in the butcher's trade throughout the Union and the exercise of coercion by wholesale butchers, and makes refusal to supply retail butchers illegal. The Post Office Administration and Shipping Combinations Discouragement Act, No. 10 of 1911, contains provisions which were specifically devised to combat the domination of South African shippers by the shipping conference, the desired effect being achieved by legislating that Government may not conclude an ocean mail contract with a combination, likely to affect South African trade and industry adversely, or with a shipping line which gives rebates to shippers who pledge themselves to use its services to the exclusion of other lines. But the most potent weapon is probably the further provision that discriminatory harbour and railway charges may be applied against the vessels of such combinations and goods shipped by them.

The first comprehensive measure, however, was the Profiteering Act, No. 27 of 1920, which expired on June 30th, 1921. The Act created a Board of Control,

with power to set up identically empowered local committees, for the fixation of prices and profits in respect of any prescribed necessities. The Act had the specific object of ensuring a reasonable profit and no more during the immediate post-war period. But the Board also possessed power to investigate combinations, and to impose penalties if they tend to create monopolies, a restraint of trade, an undue restriction of output or inordinately enhanced prices.

The Board of Control became defunct in 1921, and a Board of Trade and Industries was thereupon established[27] to examine, *inter alia*, the effect of trusts and combines and to submit recommendations thereanent. Act No. 28 of 1923 gave the Board statutory authority to enquire into and report on organisations tending to the creation of monopolies or to mischievous restraints of trade. The next development is the passage of the operative Board of Trade and Industries Act, No. 33 of 1924, section 2(*f*), providing that the Board shall enquire into and advise Government on combinations, trusts, monopolies and restraints of trade tending to affect the general interest injuriously. As combinations and restraints are not forbidden, the effect of the Act is dependent upon whatever action Government sees fit to take, and on the moral consequences of investigation or the exercise of suasion by the Board.

18. In *Report* No. 73 of 1926 on *Business Practices and Public Regulation*, the policy of the Board was carefully outlined. In brief, the attitude then adopted involved the condemnation of unfair competitive practices in the sense of misbranding, adulteration, misdescription, misrepresentation, commercial bribery and trade mark simulation. But certain forms of less-than-cost selling, discrimination based upon trade status, resale-price maintenance and exclusive dealer arrangements, ties, combination and association activities were regarded as business practices which need not necessarily involve restraint of trade and may even be advantageous to the

[27] G.N. 1045 dd. 6.7.1921.

public. However, since the power to resort to unfair dealing and unreasonable restraint of trade is opposed to the public interest, it is desirable, not, indeed, to introduce drastic anti-trust legislation, but to inaugurate a régime of positive regulation and guidance "as the positive possibilities of co-operation, such as efficiency and economy in production and distribution, cannot be disregarded and may even be encouraged in certain industries with benefit to the public, while, on the other hand, the abuse of economic power resulting from co-operation and combination should be definitely guarded against so that competition is not suppressed and the public interest endangered."

In 1931 the Board's views were still on a par, and a further supporting recommendation was submitted [28] involving, in addition, the prohibition of resale-price maintenance and that provision be made to render it compulsory to sell for cash to any purchaser such products as are offered for sale in the normal course of business. But in 1935 it was indicated [29] that the Board's disposition had changed since the first enquiry in 1926. In what way has not been revealed, and the Board still considers that "the combination movement has to be regarded as the normal trend. Most countries now recognize the practice of forming associations to regulate marketing conditions and eliminate wasteful competition as an integral part of their economic system." But "co-operative trade practices should become subject to greater public scrutiny and some form of regulation, so that suppression of competition may not lead to inelasticity of business practice and exploitation of the public"; accordingly, "it is felt that provision should be made for some measure of discriminatory justice in the regulation of competitive practices."

19. Apart from the prohibition of deferred rebates, the action taken to curb undesirable methods of eliminating competitors has reference to only a few specific

[28] *Report* No. 125, 1931; p. 177.
[29] *Report* No. 204, 1935.

circumstances, with the result that, in the Board's words, "efforts to restrict competition and to maintain prices . . . are prevalent in many branches of commerce." The attitude of Government to the problem can best be gauged from the reply by the Minister of Mines and Industries [30] to an Assembly motion in favour of anti-monopoly legislation and the protection of the public against censurable business methods: "We may pass legislation here against the trusts, but it seems to me that the effective administration thereof will be very doubtful," and "we can surely not provide for the shooting of these people if they are guilty of contravention. That would probably be the most effective way, but we shall have to be content with a very heavy fine and imprisonment." [31]

20. The Board of Trade and Industries has sought to implement its policy towards associational business control in certain instances. Thus means have been suggested to strengthen the control of the association of petrol retailers,[32] while no action was advised in regard to the potential monopoly which had been found to exist in the distribution of overseas publications in the Union "as no indication of the employment of undesirable monopolistic practices" had been disclosed.[33]

The circumstances in which punitive action has been resorted to are fivefold. It is endeavoured to overcome misrepresentation as to weight and packaging by assizing weights, measures and containers.[34] Secondly, Act No. 32 of 1925 prohibits the importation and local manufacture of adulterated leather or soles cut to size. The object of adulterating leather is to profit from the impregnation of heavy materials that are cheaper than leather (leather being sold by weight). Accordingly, the relative Act prohibits the addition of barium and lead compound and fixes maximum percentages of mineral ash and

[30] *Hansard* 14, 1930.

[31] Rather laconically, the mover of the motion thereupon withdrew it, "having full confidence in the Minister," *Op. cit.*, column 179.

[32] *Report* No. 204, 1935.

[33] *Report* No. 97, 1929.

[34] Act No. 32 of 1922, as amended.

glucose which may be added. But, while the importation of adulterated leather is prohibited and the South African manufacturers deprived of its use, no prohibition operates against the entry of footwear containing adulterated leather. The then Board of Trade and Industries considered [35] that this "would be a decided advantage to the South African manufacturer, as the purchaser would be assured that the South African boot is made of pure leather whereas he would have no security in regard to the imported boot." There are other defects in that argument, but it also takes no account of the foreign experience that pure shoe leather gets ousted because, "as the shoemaker and the consumer had no simple means of distinguishing between the 'pure' and the weighted sole leather, a condition of unfair competition was created that ultimately compelled all tanners to adopt weighting." [36]

Thirdly, the Food, Drugs and Disinfectants Act, No. 13 of 1929, replaced the obsolete and multiform pre-existing laws directed at the prevention of harmful adulteration. In addition to striking against adulteration which is harmful to public health, the operative law also aims at the prevention of the sale of articles which are spurious and misdescribed. The intention is, therefore, to prevent "a position which is deleterious to health and a position which is unfair to the honest trader." [37] It is an interesting administrative expedient that the standards prescribed for disinfectants have been enforced by subjecting them to a 20% import duty if they are not in accordance with the approved standards, whereas otherwise the duty is only 5%.

While the above-mentioned enactments minimise unfair competitive methods of overcoming the goodwill established amongst customers, the punitive withdrawal

[35] *Report* No. 29, 1923. It needs mention that the second Board stated in *Report* No. 55 of 1925 that it is not possible to justify the recommendation of the first Board, either on grounds of justice, equity or sound logic.

[36] C. J. Alsberg, *Quarterly Journal of Economics*, November, 1931, p. 9.

[37] Minister of Public Health; *Hansard*, 1929, column 1463.

of protective duties, *vide* Section 4 of Act No. 36 of 1925, as amended, is directed at the protection of the public from unduly high prices of the products of tariff-sheltered industries, and protection may also be withdrawn if the industrialists concerned act in restraint of trade or in a monopolistic manner, contrary to the public interest. This provision has never been enforced, because the mere mention of revoking protective duties, like the mention of investigating alleged restraints of trade, evidently produces the desired results.

Finally, reference should be made to the Unlawful Determination of Prices Act, No. 24 of 1931. Prior to the advent of Russian petrol, the Motor Traders' Association had achieved a measure of price stability by the simple expedient of exerting pressure on the wholesale distributors to deprive undercutters of supplies. Since an unreasonable use had been made of the Association's powers, yielding excessive selling margins, the above Act was passed, stripping the Association of its power to urge the wholesalers to withhold supplies from any retailer. Moreover, any refusal to supply *bona fide* resellers with petrol at the most favourable terms customary in the trade was prohibited, while the provisions of the Act could also be applied by proclamation to petrol equipment, the object being to close that method of evading the main provision. Similar powers were taken in respect to bread, meat, fish and coal, since they were declared to be on a par with petrol as necessaries of life, and these powers were subsequently exercised by proclamation. Act No. 14 of 1937 amended the principal Act in order to permit of the application or suspension of its provisions by proclamation in respect of any designated product in any particular area. Previously it was a formidable weakness of the Act that it had to be applied to the Union in its entirety though only one district might be affected, while the wording was also such that bread, meat, fish and coal had to be brought within the scope of the Act jointly and not singly. The main result of the amendment is to strengthen the

tendency towards associational control, in conformity with the desires of the Board of Trade and Industries.[38]

SUMMARY

21. As a diverse number of subjects have been referred to, it is perhaps permissible to recapitulate. Unrestricted entry into trade and industry is the normal rule in South Africa.[39] Entrepreneurs are ensured, moreover, of their property rights by the registration of patents and trade marks, and by means of sales promotion activities a more or less impregnable consumers' goodwill can be created. With an amazing consistency, Government has further reinforced the goodwill achieved by those means by prohibiting several forms of unfair competition, specifically, coupons, adulteration of leather, adulteration of food, drugs and disinfectants, and the use of fraudulent weights and measures. While control in several of these instances is well merited in order to preserve a modicum of business honesty and to safeguard public health, there is no evident indication that Government is cognizant that imperfection of the market is the inevitable accompaniment of the legislation in question [40]; the avowed free competitive basis of our society is thus seriously frustrated and the setting is prepared for the emergence of sub-economic business units. On the other hand, Government countenances restraints of trade and associational activity, provided they are not unreasonable. One reason for this liberal attitude is the economic advantages of co-operative effort in the conduct of enterprise; but the aforementioned stimulus to market imperfection has a diametrically contrary purport. Even if this conflict is overlooked, the counterpart of a liberal disposition towards associations and combinations is lacking, owing to the fact that the plea of the Board of

[38] *Reports* Nos. 157 of 1933 and 204 of 1935.

[39] The Marketing Act, 1937, departs from this principle. The marketing schemes may compel producers and distributors to register with the regulatory boards, mainly for control purposes, but in particular industries it may be used to exclude new entrants. The Act is discussed in Chapter IV.

[40] *Cf.* Chamberlin: *The Theory of Monopolistic Competition.*

Trade and Industries for administrative supervision and regulation of such restraints of trade as are unreasonable and of combinations and associations which abuse their power has been shunned. The undesirable consequences which follow when free competition is diluted and vitiated are, therefore, not subject to any systematic check.

22. In general it would thus appear that, commencing with a régime of free entry into enterprise in order to facilitate free competition, the necessity of safeguarding the vested interests of participants has proved such a preoccupying diversion that the final outcome is quite antithetical. The Board of Trade and Industries alone probably appreciates this illogicality, and, impressed by the emergence of a superfluity of sub-economic business units (without, it seems, quite realising how much this is due to the imperfection of competition resulting from the prohibition of certain unfair competitive practices and the other entrenching legislation, or observing that this is why many of the protected infant manufacturing industries do not become mature), it has vainly pleaded for licence restriction. This conclusion must not be taken as a demand for unfettered scope for unethical business practices or for the abolition of the patent system, and so forth. Particularly in the present era of large savings, induced invention is all the more important and the patent system should be allowed to persist until it can be replaced more fully by organised research. Moreover, having regard to the checks which must necessarily be imposed and to the very praiseworthy support accorded to associational control, it is conceded that restriction of entry into business and other economic pursuits is the logical result. In this regard it is observed that while statistical evidence has been adduced to show that, during recent years, the tendency has not been towards a more uneconomic position in the trades considered, there are many general indications that these units have not reached an optimum size. But in order to gain that end the uniform licensing system proposed

by the Associated Chambers of Commerce is of no interest whatsoever, while the proposal of the Board of Trade and Industries for a central licensing board is open to the customary practical objections, and unacceptable in the absence of previously defined principles of action and a demarcation of its scope.

23. If it is assumed that the elimination of sub-economic units of enterprise is the end in view, any proposed scheme should embrace factories as well as service-rendering firms and individuals. A prime essential should also be to place an important degree of control in regard to the authorisation of entry into any economic pursuit, in the hands of the group concerned—sometimes on a national and at other times on a local basis, depending upon the circumstances peculiar to the particular branch of economic activity. If that were to be combined with official participation in the discussions and decisions, improved official insight into the various groups of service-rendering and manufacturing industries would result. The right of veto by the representative organisation (which need not then be predominantly governmental), would follow of necessity in order to ensure equitable treatment and development according to such a general pattern as a study of the situation in its entirety might suggest.

CHAPTER II

GOVERNMENT TRADING

1. THE maintenance of law and order, which is the traditional purpose of the civil government, involves the suppression of lawlessness and the erection of safeguards against foreign attack so that the exercise of judicial, policing and defensive functions is the minimum duty resting on the State. It will, however, appear from the succeeding chapters that the free competitive basis of the South African economy is also subject to regulation in other respects. Moreover, the extension of activities has not been confined to the control, encouragement or determent of private enterprise, and the extent to which even these additional functions have been exceeded is the subject of immediate interest. The present review will, therefore, relate to those productive and service-rendering activities of the State which fall outside the sphere of regulation and of *a priori* duties. The process of amplification has largely been circumstantial and the scope of the added functions is delineated so inexactly that a survey of the range of State-ownership, in which is included the undertakings of all public authorities, is an integral part of any comprehensive account of State interference in South Africa. Commercial men usually describe the productive and distributive functions which are undertaken as "Government Trading," and it is necessary to explain that reference is then intended to the rôle of the State as seller or supplier—in contra-distinction to its activities as a purchaser of Government Stores.

2. It may be stated categorically that the accepted principle in the Union is to leave the positive economic processes to private enterprise. Any departure from

that cardinal principle is regarded as a deviation which must in every instance be amply justified, while Government is itself anxious to prove—by citing the exceptional motivating circumstances—that the capitalistic basis of the South African economy has not been traduced. It is, therefore, customary that every consideration is displayed towards private initiative and vested interests, before the Union Government or any public authority embarks upon a competitive undertaking or narrows the scope of capitalistic enterprise. In the ensuing paragraphs the circumstances will be detailed in which Government has participated in the production of goods and services. It will prove convenient to treat these actuating factors as considerations which are logically distinct, but it will be appreciated that they are not mutually exclusive in practice and do not operate singly and independently.

Furthermore, it would be erroneous to infer that because Government does in certain circumstances compete with or oust private entrepreneurs, the reasons which are advanced in support have gained general acceptance. On the contrary, the opposition to any extension of Governmental activity, and the antagonism towards existing State enterprises, is unremitting. The pro-capitalistic bias of the critics is, however, given more prominence than it really deserves, owing to the articulateness of the business community. One major contention of that group is that private businesses are invariably more efficient than State-owned establishments. The question of relative efficiency of private and bureaucratic enterprises cannot, however, be considered in the present context, as it is not intended to do more than indicate when State-ownership is normally regarded as desirable—with due regard to the possible sacrifice of efficiency which it may entail.

3. Public ownership of essential industries is a very frequent occurrence in the Union, and is resorted to for the very reason that the resulting products or services are (relatively) essential. In reference to public utility

ventures, their conduct by bureaucratic organisations is facilitated by the routine character of the operations. They are, moreover, adapted to monopolistic ownership, so that, both to avoid the waste which inheres in their duplication and for technical reasons, it often proves convenient to organise public utility enterprises on a regional or national, rather than on a local, basis. Railway and air transportation, harbours, roads, giant irrigation works, the provision of light, power and water, fire service stations, auction markets and broadcasting fall in this group.

In South Africa the construction of roads is vested variously in the local, divisional or provincial authorities, while national highways are planned and financed by the National Roads Board. The railways, harbours and commercial air services are under unitary control, while, as a general rule, urban road transportation as well as the provision of light, power, auctioneering facilities and fire-extinguishing services have been placed under the control of local authorites. However, whenever the latter, or allied, enterprises transcend municipal boundaries, Government shows a predilection for placing them under the control of quasi-public corporations. That course has, for instance, been adopted in regard to broadcasting, the supply of water to the Witwatersrand and the generation and distribution of electrical power in the principal industrial regions. A powerful tendency is also discernible in favour of the nationalisation of the larger municipal produce and livestock markets, and it may well be, abattoirs and cold storages. Evidently serious consideration has also been given to the creation of a State petrol monopoly,[1] while the railways and the principal local authorities play a preponderant rôle in the organisation of the tourist industry.

4. In deference to the doctrine that the public utilities supply essential needs, there is a distinct aversion to employing public monopolies of that nature as sources of revenue. They are, therefore, generally conducted

[1] *Board of Trade and Industries Report*, No. 204 of 1936, paras. 86–90.

as self-sufficient units—or even subsidised—although the corresponding municipal undertakings are sometimes revenue-producing, while some public corporations declare dividends not exceeding certain maximum percentages. The communications system of the Union is another important exception to the above generalisation, as the Post Office is a lucrative source of Treasury revenue.

5. By hypothesis, monopolistic State enterprises do not compete with established private businesses—excepting where the process of nationalisation has been partial, as is the case with inland transport. But the second main group of public organisations, which are established for reasons of policy rather than in pursuance of economic considerations, is nearly always competitive. Educational institutions, hospitals, housing schemes and financial organisations are comprised in this division.

To some extent their competitive incidence is counteracted by means of Government grants—as happens with private and mission schools and certain hospitals. But it is characteristic of the services rendered by the State in the field under consideration, that they are provided below cost for reasons of social policy. Moreover, it is only logical that if hospitals and education are regarded as vital to national well-being, free rein should not be given to the profit incentive in these spheres. On the same ground, medical and dental services might advisedly be nationalised, particularly since gratuitous medical attention (like free schooling) is rendered practicable in virtue of the fact that the demand for medical treatment (like the demand for tuition) is normally inelastic.

Government is at present committed to a substantial sum in respect of sub-economic housing schemes in urban areas on behalf of the very poor among the Europeans, Coloureds and Natives,[2] and funds have been provided for slum clearance. The competition experienced from this source by deserving proprietors of

[2] *Report of the Central Housing Board*, 1934, U.G. 21–35, para. 19.

houses which are let is, however, more apparent than real—except in so far as the housing schemes further inflate building material prices in boom periods—as "practically no housing has been provided for the poorer classes since the war by private enterprise." [3] In any event, "it is certain that an unskilled labourer cannot afford to rent a decent house which is unsubsidised in a large urban area. He must either receive a subsidy or his children must remain in a slum. The country has long since made up its mind that the cruel waste of good human material must be stopped." [4]

The financial activities of Government, however indispensable they may be, are highly competitive. The farming community receives substantial credits on very favourable terms from the Land and Agricultural Bank and the State Advances Office, and a substantial volume of business has accordingly been diverted from the commercial banks, traders, and other sources of credit. Similarly, the transfer of the current accounts of the Provinces, the Railway Administration and the Central Government to the South African Reserve Bank, involved an appreciable loss to the commercial banks. Finally the popularity of the Post Office Savings Bank places a restriction on the financial operations of the privately owned savings banks and building societies.

But the service rendered to small savers throughout the Union by the Post Office Savings Bank is not equalled by any other financial institution. It is also unquestionable that the farmers would not receive as favourable treatment from private banking firms or any other financial agency, as they obtain from Government or from the Land Bank. Neither is it inconceivable that banking business will in future years devolve on Governmental agencies to an increasing extent, partly on account of the tendency towards a more incisive degree of State interference and partly under the influence of the considerations which render the nationalisation of banking

[3] *Annual Report of the Department of Public Health*, 1935, p. 8.

[4] Secretary for Public Health, *ibid.*, p. 10.

attractive, namely, the routine character of the bulk of banking business, the desiredness of purposive canalisation and control of the volume of investment funds, and the savings which can be effected by eliminating the wholly unnecessary duplication of banking services. The creation of additional institutions by Government which conduct some or other variant of commercial banking business with the public, in competition with similar or identical private financial agencies, has, of course, *enhanced* the competitive waste alluded to above.

6. Active participation by the State in the economic production of non-essential goods and services has virtually been limited to a few instances in which the prospective profits failed to attract private capital. The most imposing illustration is the Iron and Steel industry, in regard to which the lure of a pig-iron subsidy had previously proved ineffective while the shares in the Iron and Steel Corporation which were initially offered for public subscription were not taken up, so that Government was constrained to assume practically the entire financial burden. Furthermore, when the industry was planned in 1929, it was thought that the output would largely consist of steel rails and other railway materials, and that subsidiary products would be manufactured by auxiliary private companies. However, despite the tremendous increase in the inland demand for iron and steel products after 1933, it has been necessary periodically to enlarge the Government's contribution towards the capital of the Iron and Steel Industrial Corporation, in order that secondary manufacturing ventures could be undertaken as an integral part of the larger scheme.

Furthermore, with the outstanding exception of the wattle plantations, afforestation of the Union is mainly undertaken by the State owing to the deficiency of private investment in the industry. This must no doubt be ascribed to the fact that afforestation is a dubious long-term investment, but it is remarkable that the

disinclination of private investors has hitherto also extended to saw-milling.

> "Averse as the Department is to undertaking the sawing and manufacture of wood, holding rightly that its functions should end with growing of the wood and that subsequent handling thereof should be left to private enterprise, there seems no way out of the present impasse than that it should itself enter the field. . . . This will immediately serve to create the confidence that is now lacking on the part of the public. . . . But the larger timber merchants, secure in their interests in the import trade in timber, are not willing to enter . . . the exploitation and the manufacture of wood, and private enterprise capable of organising and handling this business on a scale commensurate with the needs of the case has not yet materialised." [5]

It is illustrative of the attitude of the business community in the Union towards public ownership, that the Division of Forestry mentioned in its next annual report [6] that "as regards sales of mining timber, complaints arose in certain quarters that the Department's transactions in this respect interfered with and even prevented disposal of timber by private owners of plantations." In defence of departmental milling the Division, therefore, stressed that "there is no intention of interfering with any private enterprise which promises to establish or develop an efficient saw-milling business," but that "no viewpoint can be accepted which denies the State the right of using every endeavour to put to use the timber which it has grown."

In this connection it is also mentioned that the preservation of the Union's flora and fauna is a function which properly devolves upon Government owing to the inapplicability of the profit incentive. It so happens, however, that the game sanctuaries of the Union's National Parks Board of Trustees possess a significant economic value and play a vital part in the tourist

[5] *Annual Report of the Division of Forestry*, 1935, U.G. No. 38, 1935, *passim*. The quotations have been combined.

[6] U.G. 53, 1936, pp. 7 and 9.

industry. The erection of a network of grain elevators by the Railway Administration, was also impelled by the disinclination of capitalists to shoulder the risks connected with this very economical and indispensable system of bulk handling and storage of grain. It has also not been an unimportant factor in connection with the nationalisation of the railway system of the Union, and the municipalisation of public utilities, that, in the absence of adequate sanctions in the agreements with corporations holding railway, tram line and other concessions, the services were not voluntarily extended to those backward regions and districts which do not yield a profitable volume of traffic or an adequate demand for other services.

It is, however, a significant manifestation of the pro-capitalistic disposition of the authorities that, despite the ardent advocacy of industrialisation and the relatively slow progress which was made prior to 1933, Government has not succumbed to the constant pressure to finance industrial establishments from loan funds. It has instead adhered to the practice of creating the degree of profitability which is necessary to entice the capitalistic investor, by means of fiscal protection.

7. In a few instances, public ownership has been resorted to in the Union with the (temporary) object of incapacitating a monopolistic combination which acted in a manner injurious to the public interest, or in order to weaken the monopolistic powers of a combine which it had proved difficult to subjugate. Thus the Cape Requisites Store was established with the object of combating a ring which had fixed prices for school requisites and was alleged to have made undue profits. The interests concerned in Cape Town were notified that, failing some modification of prices, the Cape Provincial Administration would consider the establishment of its own supply store. Eventually the Requisites Store was inaugurated under control of the Administration with a view to supplying the pupils of primary schools with books and requisites. The Store is con-

ducted as an ordinary business undertaking and recovers from the Administration the total value of issues plus administrative expenses.

Similarly, one of the principal reasons why municipalities have been empowered to buy and sell electrical goods is the desire to protect the public from the fixation of unreasonable prices by collusion amongst dealers. At the same time, an important factor was that the demonstration and sale of electric (or gas) appliances of dependable quality and on favourable hire-purchase terms by Municipalities is a valuable means of developing the domestic use of electrical power generated by a revenue-producing municipal undertaking.

Finally, the encouragement accorded to the erection of municipal cold storages, and the provision of refrigeration facilities by the State at the principal harbours of the Union, originated in a desire to weaken the monopolistic position of the Imperial Cold Storage and Supply Company Limited, in the fresh meat and fish trade. [7]

8. Public ownership of productive undertakings is sometimes the result of military considerations—which place a premium on self-sufficiency, as is evidenced by the local manufacture of ammunition and artificial limbs and the assembly of aeroplanes. A large proportion of Government trading is, however, incidental to the normal functions of the various Departments of State.

As a result of experimental work and instruction, a variety of articles is made available for sale. Thus certain farm crops are produced by workers on the training farms of the Department of Labour and at certain institutions under the control of the Departments of Public Health and Interior. Minor prison-made articles are made for other Departments and the surplus is sold to the outside public with due regard to the interests of local industries. The pupils at Trade Schools are occupied as far as possible in supplying the needs of

[7] *Cf. Board of Trade and Industries Report* No. 54 of 1925, *passim.*

other Departments, and outside work is undertaken only if it supplements the training afforded by the manufacture and repair of Government requirements. The educational value of outside work is, therefore, a major consideration, while the prices charged are comparable to those quoted by commercial firms, although work is done for the trade itself at substantial discounts. Also at the agricultural schools—whether European or Native—the sale of products in which instruction is given is inseparable from the management of the institutions. Dairy produce is generally disposed of to the Railway Administration. In this regard the Veterinary Research Laboratories and the National Botanic Gardens of South Africa occupy a special position. The former distributes vaccines gratuitously, while the latter institution conducts a trade in seeds of indigenous plants which are new to cultivation, and follows the invariable policy of selling only to the trade. Then again, the Department of Irrigation competes with private enterprise in water-boring operations and with professional men by giving advice in regard to irrigation works. For reasons of policy, these services are generally conducted at less than the actual costs incurred by the Department.

9. The largest volume of departmental production is, however, the result of a desire to be self-sufficient. Although the resulting productive works do not ordinarily compete with private undertakings for the requirements of the general public, the effect on private industry is nevertheless adverse, as the withdrawal of Government orders, often of considerable size, limits the operations of private establishments. It has no doubt been noticed that in the above instances where production is inseparable from ordinary departmental activities, partial effect is simultaneously given to the ideal of a self-sufficient civil service.

The importance of this policy to private industry in the Union may be gauged from the following examples. The Railway Administration has progressed considerably

in the direction of achieving self-sufficiency. Thus the railway workshops constitute the biggest engineering unit in the country, and it is self-evident that railway orders would be highly esteemed by private manufacturers. On occasion the striving towards self-sufficiency has resulted in the addition of uneconomic branches to the railway system. For instance, in order to become self-supplying in regard to railway sleepers, the railways had since 1902 acquired their own forests—in areas which were largely unsuitable for the production of sleeper timber. The policy has since been adopted of using steel sleepers (which are obtained from Iscor) on all lines, and the Granet Commission of Enquiry, therefore, recommended in 1934 that the redundant forests be disposed of at the best prices obtainable.

In regard to the construction of roads and public buildings, the Minister of Public Works circularised the Provinces in 1910 to the effect that Government had decided to save the cost of the duplication of technical departments by creating one Public Works Department to cater for the Central and Provincial authorities.[8] That Department designs, erects and repairs buildings and bridges for the Union Government and certain of the Provinces. It is responsible for the construction of fishing harbours and supplies the housing requirements of Government subsidised and quasi-public bodies. Finally, the preparation of drawings and specifications is undertaken by the departmental officers. The check on the activities of private contractors, architects and quantity surveyors, which results from the manifold functions exercised by the Department is obvious. It is, however, counteracted to some extent by the practice of giving out the larger projects to public tender while repair services and minor works are also on occasion given out to contract.[9] Despite the original intention that this technical Department would be of service to

[8] *Circular* dated 13.10.1910. (Reproduced as Annexure "K" in U.G. 46, 1934.)

[9] *Cf. Annual Reports of the Secretary for Public Works.*

the Provinces in regard to architectural work and the construction of roads and bridges, there has been some duplication of Provincial Departments owing to dissatisfaction with the central Department and its inability to cope with all the work.

The concentration of nearly all Government printing and stationery requirements in the Government Printing Works is another outstanding instance of a large-scale diversion of public contracts from private firms. It is true that in due course private industry adapts itself to the position, but the impact effect of diversion of public orders is very serious. Thus in 1934 a Commission of Enquiry was appointed to ascertain whether it would not be economical for the Railway Administration to abandon its practice of placing the printing of time-tables and other printed requirements in the hands of the Government Printing Works.[10] The contrary conclusion was, however, reached and the endeavours of the Master Printers' Federations to remove the detrimental incidence of the decision of the Administration on the private establishments which had previously secured the contracts were accordingly unsuccessful. In consequence of the extensive range of Governmental activity and the democratic practice of publicising the proceedings of the different organisations, the Government Printing Works is also an important competitive factor in the local book and map trade.

The Pretoria branch of the Royal Mint was established as an essential counterpart of the prerogative of Government to mint coins. It has, however, proved impossible to regulate the staff of the Mint in harmony with fluctuations in coinage operations, and towards the close of 1924 the performance of miscellaneous work was undertaken in slack periods during which the staff and machinery are not engaged on coinage. Most of the work is done for Government Departments, particularly the local and

[10] 1934 *Annual Report of the General Manager of Railways and Harbours*, pp. 47 and 48.

provincial authorities. It is interesting to note that the provincial administrations previously secured the supplies of metal badges which are used in connection with their licensing functions from overseas.

Finally, it may be mentioned that the disposal of Crown lands has in the past assumed extensive dimensions. In regard to mineral rights vested in the State, the policy is to lease the properties and a considerable revenue is derived from this source. State-mining has not been extended beyond the operations connected with the alluvial diamond fields.

10. The subject of Government trading has been approached from the point of view of the principles which are followed in deciding whether or not to extend the scope of State ownership and conduct of productive undertakings. Emphasis was placed in the course of the survey on the resultant effects on private enterprise, as is proper in a study of conditions in a capitalistic community. There is, however, no presumption that the extension of Government ownership is undesirable merely because the scope of private enterprise is curtailed on each occasion. Total output is only impaired if the transfer involves an expansion of relatively inefficient Government enterprises, while the redistribution of the national income is generally for the better, owing to the smaller discrepancy between the rates of remuneration of operatives and executive officers in State-owned undertakings.

11. It is evident from the classification of the circumstances in which Government has taken an active part in production, finance, commerce and the service-rendering industries, that a cautious policy is practised. In principle, Government has remained opposed to State socialism, and it views proposals for the extension of State-ownership with involuntary suspicion. It would appear, however, that if actual conditions warrant such intrusion, a sufficiently flexible attitude is displayed. In effect, the superficially catholic doctrine is in practice invested with a degree of elasticity which permits of the

performance by Government of whatever scheme may find favour.

Although there appears to be no need for a change in the fundamental policy, it is clear that the future of active Government participation in the Union's economic life depends very largely upon the frame of mind in which the matter is customarily viewed by those authorities that are principally concerned with the formulation of the economic policy of the country. From a political point of view the day seems to be far distant when nationalisation may be the predominant creed. Owing to three considerations it is, however, expected that the range of public ownership and control will gradually increase. Firstly, the Marketing Act, 1937, provides for the establishment of an Agricultural Marketing Fund for the purpose of rendering financial assistance to the regulatory boards which may be created in terms of the Act. As some of these boards will probably be invested with the power of embarking upon processing and manufacture, the State may conceivably assist in financing any factories which the boards may erect. Secondly, the projected policy of encouraging the location of manufacturing industries in the small towns of the Union will embrace some or other form of Governmental assistance. Favourable railway rates and the non-application of the wage-regulating instruments to small towns are relevant in this connection, but it may well prove imperative to promote the object in view by granting financial assistance. Thirdly, the Board of Trade and Industries will probably be consulted if it is ultimately decided to promote decentralisation of manufacturing industries in an attempt to check the efflux from the rural areas and country towns regardless of the loss in productive efficiency. On the further assumption that the rural manufacturing industries will not be sufficiently profitable to attract private capital, the Board's findings in regard to the related problem of establishing industries in the Native Reserves are of interest. Thus it was recommended that certain factories

be erected in the Transkei by means of grants from the Native Trust Fund,[11] and it seems permissible to infer that the Board will not be antagonistic towards a proposal to finance rural manufacturing industries in other villages by means of Government funds.

[11] *Report* No. 219, 1936, para. 106 (5), (*a*) and (*b*).

CHAPTER III

EVOLUTION OF A POSITIVE ECONOMIC PROGRAMME

Historical Review

1. The discovery of diamonds and of the Witwatersrand marked the conclusion of the pioneer era in South Africa as the growth in population and trade necessitated the transformation of the preceding self-supplying economy. By means of railways, connecting the hinterland and the chief harbours, the country was, therefore, speedily linked up with the outside world. This sudden change in South Africa's economic status, inevitably had profound repercussions on the prevailing social arrangements, and, since they were rather parochial, the inland Republics finally succumbed in the Anglo-Boer War despite every endeavour during the preceding decade to preserve their autonomy. But the mere introduction of British rule throughout South Africa did not adequately adapt the political régime to the underlying economic factors, and in deference to the homogeneity of the economic interests of the four adjoining Colonies, it was sought to ensure co-ordinated development by amalgamating the inland railways and by forming a Customs Union in 1903. Business interests, however, transcended the existing boundaries in many other respects, and as the common allegiance of the Colonies and the racial affinity of their inhabitants revivified the old federal ideal, complete political union was established in 1910.

2. Both before and after this event, the economic progress of South Africa was not subject to extensive direction by the State except in a few respects. Thus,

reconstruction in the war-areas was financed from the Imperial Development Loan. Further, in the ensuing depression it was sought to facilitate revival by augmenting the labour supply of the gold mines and introducing Chinese labourers. Finally, after Union, the Central Government concentrated on unifying and extending the civil administration and railway system, thereby eliminating those remnants of provincialism which still hampered the development of the Union as an economic entity.

During the World War the scope of governmental regimentation of the economic system widened substantially, but the control exercised was mainly confined to the utilisation of the railway service for military purposes and to the regulation of shipping and foreign trade with a view to maintaining food and war material supplies. The restraining influence of these measures, of the increased taxation and the pegging of exchange rates (and, incidentally, of the price of gold when the tendency was upward), was offset by the paucity of imports, rising prices and lavish military expenditure in the Union and elsewhere, which effectively promoted rapid industrial and agricultural expansion.

3. During the post-war inflation, price-control of essential foodstuffs was temporarily undertaken; but the remainder of the period ending in 1929, is characterised by a determination to resuscitate the (qualified) *laissez-faire* régime which obtained prior to 1914. Thus, in conformity with the current desire to re-establish international equilibrium, the Union Government carried through a deflationary programme; and, after eventual stabilisation at the original parity, reliance was placed on individual initiative and competitive forces to direct the economic system. It proved politic, however, to embark upon agricultural and industrial protection in 1925, in order to preserve and amplify the productive structure which had emerged under pressure of military exigencies. Moreover, the rapid progress of industrialisation brought labour problems

in its wake which resulted in an extensive system of collective regulation of labour conditions under State supervision, while, for social reasons, a civilised labour policy was formulated. The endeavours to minimise State control were attended with fair success, until the protracted depression, commencing in 1929, caused a reversal of policy. It is proposed to elucidate the signal formative influence exercised by the events of 1929 onwards.

GOVERNMENT AND THE GREAT DEPRESSION

4. With the exception of a temporary improvement in the middle of that year, the business recession continued unchecked until the end of 1932, when abandonment of the gold standard wrought a striking change. The decline in activity was of vast dimensions, affecting every element of the economy but the Transvaal least of all. Thus, employment indices and earnings fell while railway traffic also diminished; foreign trade was reduced both quantitatively and in value, and, in addition, the terms of trade, *inclusive* of gold exports, altered to the disadvantage of the Union, excepting in 1932 when its stationary price and the preponderant importance of gold exports reversed that tendency. Furthermore, prices declined, though more precipitously in the case of farm products and minerals (other than gold) than in that of manufactured goods. The severity of the depression is perhaps well reflected by the huge reduction in commercial bank deposits, the concurrent fall in the overall velocity of circulation, and by the general transfer of deposits from current to time account.

Even in good times a large proportion of the European population of the Union suffers chronic poverty, the Carnegie Commission of Investigation estimating in 1929–30 that the poor whites equalled 300,000, while nearly half the European population feed and clothe their children inadequately.[1] The depression involved further deterioration, so that Government was confronted

[1] *Report*, p. VII, also Vol. III, p. 220.

with the pressing task of creating more employment. Owing to the uneven incidence of the depression, it was, however, of equal importance to secure a level of activity in the different industries and a degree of adjustment in their unit-prices which would remove the discrepancies which had either newly emerged or had been accentuated by the price decline. Failing an adjustment of that character, particular sections of the community would remain in a position of relative disadvantage, leading to a transfer of resources to other avenues of employment, if any.

5. In order to maintain the output of primary products, Government took steps to preserve the domestic market for locally produced products wherever possible by eliminating competing imports. But since a very limited internal market exists in respect of metals, wool, mohair, hides, skins, fruit, wattle bark and extract, advantage was taken of the Ottawa Conference in 1932 to obtain preferential Commonwealth treatment in respect of numerous exports. Although the closing of the home market redounded to the disadvantage of the export industries and also increased manufacturing costs, no convincing objection can be formulated against the policy in question. Industrial protection was practised simultaneously, while the catastrophic decline in world prices and the prevalence of distress sales would otherwise have involved the ruin of several foodstuff industries—a contingency which had to be avoided as the general under-utilisation of available resources precluded the transfer of displaced factors of production. The reservation of the home market by regulating imports of wheat, flour, maize, dairy products, cattle, tobacco, and by the imposition of higher protective duties on sugar, chicory, edible animal fats, bacon, ham, cheese, eggs and so forth, was frequently supplemented by forced exports, generally at a loss, in order to maintain inland prices. These measures have been widely criticised on the ground that liberal inland prices would have increased the local demand while also yielding a better average return to

producers. But it is questionable whether that would have occurred in 1930–32, as the purchasing power of consumers was at a low ebb in these years and the demand for essential foods, therefore, both minimal and inelastic.

6. In order to combat European and Coloured unemployment, the Department of Labour inaugurated and subsidised temporary relief works, including, for example, railway construction, fencing in connection with the foot-and-mouth-disease cordon, the erection of Iscor and the Witwatersrand University library, road and street construction, sewerage and water works as well as the improvement of sidewalks and parks by local authorities. In addition, poor relief (which is in normal times undertaken by the Provincial Authorities) was taken over by the Union Government, which supplied rations and blankets and even seed-wheat in certain drought-stricken Cape districts. Owing to the inability of speedily initiating relief works in the absence of advance plans—rather than on account of a lack of funds, since the total expenditure was less than £1 million in 1932–33—it was, however, found impossible to provide employment for all.[2]

The Department of Labour is the official propagator of the civilised labour policy, and since the municipalities proved somewhat recalcitrant in subscribing to that doctrine, differential rates of subsidy were introduced in order to induce the local authorities to concentrate on the employment of civilised labour. Native relief work was not, however, dispensed with altogether by the local authorities, while similar works were instituted by the Native District Councils (payment being effected in maize in the Transkei at one stage, the rates of payment in kind differing as between single and married Natives). Relief rations were also issued by the Department of Native Affairs.

The discrimination practised during these years of

[2] "Long delays occurred between the time the subsidised work was authorised and its commencement," wrote the Secretary for Labour, 1932 *Annual Report*, p. 7.

dire distress when the European : Non-European labour ratio in manufacturing industries was also declining, is doubtless inequitable, but there is nevertheless a substantial measure of justification for the policy in question. Native males generally have a homestead in a Reserve, sometimes of doubtful fertility, on which their families reside. On that account and because non-urbanised Natives earn a relatively low monthly wage while employed, the Native workers are endowed with a relatively greater capacity of self-help than landless European workers or squatters exercising no proprietary rights. Thus, it is not surprising that the official partiality for civilised labour was not relaxed and that an extensive movement to the Native Reserves took place in the depression (excluding the years of drought). It is apposite to add that the tradition of transport-riding is still strong amongst the European villagers, and, in times of adversity, they reveal a comparable tendency to resort to animal transport-riding as a means of subsistence.

The Social Significance of Gold-Mining

7. The official efforts to create employment were powerfully supplemented by the expansion of gold-mining activity at a time when every other branch of enterprise was decaying. Thus, between 1929 and 1932, the labour force of the gold mines increased annually by 25,000 while Union Natives derived a further advantage from the displacement of 39,000 imported Mozambique Natives. The unique position of the gold mines is, of course, due to the fact that the money-price of gold remained stable in South Africa until the close of 1932, so that the concurrent reduction in other prices and costs resulted in an increase in gold-mining profitability. A lowering of the grade of ore mined thereby became possible, and the Union found herself in the fortunate situation of being able to divert part of her unemployed resources to the production of money for other countries.

The increased gold output, however, had an equally important secondary effect, as Mr. Keynes has shown in discussing the theory of the multiplier.[3] It is an empirical fact that people tend to enlarge their total consumption as incomes increase, albeit at a reducing rate so that savings rise in relatively greater proportion. For example, if Government invests in a new armament factory, people's incomes are added to. It is probable that, say, seven-tenths of this addition will be devoted to consumption goods so that consumption goods industries will expand. The resulting increase in income will have to be just sufficient to permit of the saving of the amount of the new investment undertaken at the outset; and, on the illustration used, the secondary expansion will increase the national income by three and a third times the initial investment. In practice many factors tend to modify the multiplier as thus determined by the average marginal propensity to save, and it has been shown to have a value of 2 in England.[4] But, however the modifications may operate, it seems proven that, if people spend a portion of their increased incomes, new investment leads to a substantial secondary expansion of employment in our depression-stricken world; moreover, it is immaterial whether the initial new investment is of a profitable or uneconomic character.

Mr. Keynes, therefore, parodises that[5] "if the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment, and with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. The analogy between this expedient and the gold mines of the real world is

[3] *Vide The General Theory of Employment, Interest and Money.*
[4] Colin Clark, *National Income and Outlay*, p. 249.
[5] *Op. cit.*, pp. 129–30. The sequence has been altered somewhat.

complete. At periods when gold is available at suitable depths experience shows that the real wealth of the world increases rapidly; and when but little of it is available, our wealth suffers stagnation or decline. Thus, gold mines are of the greatest value and importance to civilisation. . . . Pyramid-building, earthquakes, even wars, may serve to increase wealth. . . . It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing."

Moreover, whenever the prospective yield of capital goods falls below the downward-inflexible rate of interest which sets the standard to which new investment must conform if it is to occur, the social significance of gold-mining as an effective means of initiating the desirable repercussions associated with increased new investment, is enhanced. To quote Mr. Keynes [6]:

"In the first place, owing to the gambling attractions which gold-mining offers, it is carried on without too close a regard to the rate of interest. Just as wars have been the only form of large-scale loan expenditure which statesmen have thought justifiable, so gold-mining is the only pretext for digging holes in the ground which has commended itself to bankers as sound finance. In the second place the result, namely, the increased stock of gold, does not, as in other cases, have the effect of diminishing its marginal utility. Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed two activities, namely, pyramid-building as well as the search for precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead are twice as good as one; but not so two railways from London to York."

It is clear that, although for the world as a whole this solution has only recently become fairly general owing to the present high price of gold, South Africa, as a major gold-producing country, was doubly fortunate during the depression in that diversion of labour and capital to gold-mining was possible to a fair degree,

[6] *Op. cit.*, pp. 130–31. The sentences quoted have been joined together and the sequence slightly altered.

while it also benefited from the backwash of repercussions set up by the new investment. But while gold-mining has been of salient significance, the reason for it is not very exalted, as more useful avenues of investment also possess an expansive potentiality. Indeed, the metal is inherently incapable of satisfying many real needs and is too expensive to be used freely where it can be of service, so that, while gold-producing nations prosper, mankind, deprived of cheap gold injections, is foredoomed to endure its sciatic pains and melancholia, missing also much of the glamour and beauty of life which necessarily remains imperfect.

Monetary Policy

8. In accordance with traditional banking principles, the Governor of the South African Reserve Bank drew attention to the "high ratio of the commercial banks' advances to their deposits, and to some other symptoms of overtrading" as soon as the depression commenced, while, in August, 1929, the bank rate of discount was increased by $\frac{1}{2}\%$ as a warning signal to the community generally. This deflationary measure aggravated the rapid decline of demand deposits, while the proportion of fixed to total deposits rose simultaneously, partly as a result of an increase in fixed deposit interest rates but mainly on account of a lack of confidence in future prospects. In addition, the commercial banks exercised more caution in lending, as is evidenced by their declining percentage of unsecured overdrafts. As the supposed need of tightening credit conditions had lessened, the Reserve Bank reverted to the former interest rates a year later and finally made an equivalent reduction in March, 1931, whereafter the resulting discount rate of 5% ruled until Great Britain departed from the gold standard.

The initial increased return on time deposits necessarily acted as a direct incentive to keep money balances idle, while the enhanced discount rates and their characteristically high level (presumably as an incentive to overseas

investors to supply the capital needs of the Union [7]), imposed a significant burden on all entrepreneurs. Indeed, while prices fell, discount rates first rose and then declined inappreciably, fixed interest rates remaining unaltered, so that the value of money and capital in terms of output increased, enabling the rentier class and the banks to increase their command over commodities in the face of a very severe contraction in the total supply of commodities and services. The adverse influence of this type of monetary policy on new investment and, by imputation, on the level of activity of consumption goods industries, is apparent.

9. When Great Britain abandoned the gold standard in September, 1931, and an outflow of funds was experienced in South Africa in anticipation of devaluation, a golden opportunity occurred to solve a number of problems created by the post-1929 recession. Foremost amongst the collectivity of price-disparities which a decline in the external purchasing of the Union pound would have rectified are the following: The money returns of the primary export industries would have grown more rapidly than their costs, so that production would at least have been less unprofitable. Further, by lessening the real return of money-interest, the general fall in the purchasing power of money would have relieved all users of loan capital of the pressing burden of interest commitments. In addition, since the above adjustments must necessarily stimulate economic activity, the reduction in real wages would have been offset by an expansion of earnings. Finally, as the gold bullion market reflects the degree of sterling depreciation without delay, and since prices of manufactures lag behind the values of primary products when prices rise, the gold-mining industry would have expanded by exploiting lower grade ore, while the terms of trade would have altered in the Union's favour, thereby reversing the contrary tendency present in aggravated form from 1929 onwards.

It was, however, elected to adhere to the contractionist

[7] *Cf. Report of the Cost of Living Commission*, 1932, para. 89.

doctrine of economic revival and to pursue the deflationary course embarked on in 1929, in the hope that wage and cost reductions would eventually restore profitability to industry and trade and re-establish international equilibrium. Government took this decision very seriously and introduced numerous economies, including, for instance, the raising of the free schooling age from six to seven years and the recovery of old envelopes and red tape in the various Departments, while civil services salaries were reduced and the fees of parliamentarians were cut (the reductions being subsequently refunded).

10. The choice of a deflationary course was reinforced by the prevalent confusion concerning the most appropriate exchange value of the South African pound. Thus, undeterred by Reserve Bank losses on London holdings and the depreciation of other balances held in London, Government decided to retain the pre-existing gold parity for several reasons. Firstly, the depreciation of sterling permitted of the settlement of the Union's external debts at a discount, thereby mitigating the pressing burden of fixed interest charges and capital repayments. Secondly, it was feared that depreciation of the South African pound would damage our credit standing. Thirdly, the future of sterling was uncertain, and the wisdom of linking with the British pound was, therefore, problematical. Fourthly, it was held that, as a major gold-mining country, South Africa would commit treason if she departed from the gold standard, seven South African economists declaring in a joint memorandum that it would hardly be in the Union's interests "to do anything which will encourage an international depreciation of the value of gold in relation to commodities!"[8] Moreover, in regard to the Union's ability to maintain the existing gold parity, the Select Committee on the Gold Standard, echoing the opinion of the Governor of the Reserve Bank, wrote that "everybody who is sufficiently conversant with the facts will admit that there is no danger of South Africa being

[8] *Rand Daily Mail*, October 14th, 1936.

forced off the gold standard. . . . Here it should be remarked that the humour of the situation in which a Select Committee finds it necessary seriously to place on record the foregoing sentence, will probably only strike people reading this report as historical material in the future." [9] Strange are the fates that the humour of the situation dawned in time to haunt, not the graves, but the troubled minds of the cocksure members of the lay Committee, as, on December 28th, 1932, the Union was forced off gold because unmined ore does not constitute readily available reserves. Fifthly, although there was also the important factor of national pride, the decisive consideration emerged from the conviction that, after some months of lag, the Union's competitors on the British market whose currencies had depreciated, would cease to reap a surreptitious exchange advantage over South African exporters. The sterling price of exports would rise so that the return in South African pounds would be the same as before, while exporters from competing countries with depreciated exchanges would have their augmented monetary return neutralised by an appropriate increase in costs. This, in particular, was the view of certain influential professional economists, who, persuading Government and impressing the business interests, carried the day.

The much-vaunted price adjustment did not occur. Sterling prices duly rose—relative to gold prices—but production costs in countries with depreciated currencies did not increase in due proportion. Some of the economists thereupon changed their advocacy, but their erstwhile influence had meanwhile been sadly dissipated, and they proved powerless to undo what had been done on their authority. As the economic interests of the Union accordingly remained in jeopardy until that impetuous political hero of the time, the late Mr. Tielman Roos, forced a change in policy, it is of interest to record in which respects the price-effects of devaluation had been misinterpreted.

[9] *Report of the Select Committee*, p. xxv.

The basic mistake would appear to be that the inflation history of post-war times was adopted as a background in circumstances which were very different, while the complicating elements which invalidated a rigid adherence to the theory of price diffusion were either overlooked or underestimated. A reduced exchange value of a currency, say sterling, connotes a smaller external purchasing power in terms of goods and services, so that, relative to gold prices, their sterling prices have to rise at a progressively quicker rate than the percentage depreciation of sterling from the par of exchange, in order to give effect to the degree of depreciation.[10] Moreover, the sterling price of gold was adjusted with speed and precision, but sterling prices of other internationally traded goods did not show an absolute increase bearing the stated proportion to the depreciation of the pound sterling as the collapse of a number of currency systems, superimposed upon the downward long-term trend of prices, accentuated the international deflationary movement. True enough, effect was given to the degree of sterling depreciation by an increase in sterling prices of international goods relative to the declining level of gold commodity prices. That rendered the argument formally correct, but did not make it practically relevant, as the simultaneous occurrence of currency depreciation and deflation of gold commodity prices forestalled the anticipated extreme price increases, while, to the extent that prices did rise in terms of depreciated currency units, the increase was most welcome. Furthermore, by ignoring the fact that the argument relates to the prices

[10] If "a" is the price of an internationally traded commodity and "b" is the par of exchange between, say, London and Paris, the quotient $\frac{a}{b}$ is the sterling price of the product. If sterling depreciates by x%, the equivalent sterling price of that product is $\dfrac{a}{b - b \cdot \frac{x}{100}}$, the percentage increase in sterling price being $\dfrac{100x}{100 - x}$, which exceeds x%.

of internationally traded commodities, it was applied without modification to internal prices and costs. Wholesale, retail and other internal prices did not, however, rise sufficiently to offset the degree of depreciation, as these notations are not indicative of the external purchasing power of a currency, but measure something entirely different. They would, of course, forthwith have experienced a movement in the upward direction had gold commodity prices not fallen, because the increased money-prices of imports are reflected in final inland prices in proportion to their contribution to the cost of the commodity. Finally, what is more important from the long-term point of view, it was not known that future price-levels would not be related to the gold-exchange value of national currencies in consequence of the general practice of consciously regulating the volume of currency independently of gold-holdings and foreign-exchange relationships.

Resolute in its decision to stay on gold and to prosecute a deflationary policy, Government extended the relief measures to which earlier reference has been made and also transferred the exchange advantage of importers to exporters, who were sustaining an exchange loss, by a primage-surtax-*cum*-bounty scheme. As the exchange advantage accruing to importers was obliterated by the forced return to parity with sterling, the special imposts were, however, abolished in 1933.

Recovery

11. The depreciation of the South African pound, consequent upon the departure from gold, enabled holders of overseas funds to repatriate their foreign balances at a profit, and the resulting influx of capital was accentuated by the incipient gold share boom. The stimulus imparted by the plenitude of money and the disappearance of the pessimistic sentiment which the determined adherence to the old gold parity had engendered, facilitated recovery on the basis of an expanding gold-mining industry, housing construction and an extension of public works.

The enhanced price of gold, coupled with the stationary level of costs, gave a new lease of life to low-grade mines and rendered possible the exploitation of deposits of gold-bearing ore which had previously fallen outside the margin of payability. In consequence, employment in the gold mines increased by more than 50% in five years. The ensuing concentration of the population in the Southern Transvaal, coupled with the depression lag in the building industry and the exceptional demand for housing caused by the contraction of postponed marriages, led to a building boom of extensive dimensions. In the large towns alone, the value of building plans passed outstripped the 1932 figure by over 500% within five years, so that, as a source of capital investment, building and construction soon assumed a position of priority. Furthermore, existing manufacturing industries expanded and many new enterprises were commenced. Finally, in order to provide regular work rather than temporary relief to the permanent unemployed, and with a view to diffusing the vast flow of purchasing power engendered by the boom in gold-mining, Government embarked upon a public works programme of unprecedented magnitude. It involved the construction of national roads, irrigation schemes and armament factories, as well as land reclamation, harbour improvement, afforestation, slum-clearance, rural housing resettlement, subsidised housing for the low-income groups, anti-soil erosion measures and the eradication of such national scourges as "gifblaar" and cactus. Indeed, employment on national works soon exceeded the dimensions of the relief works initiated as a depression measure, and even then there were still "many more vacancies on national works than there were eligible able-bodied applicants to fill them."[11] To some extent a purely competitive demand for labour was, therefore, created in conditions approaching full employment.

12. Having regard to the aforementioned arithmetical relationship between investment and the national income,

[11] 1935 *Annual Report of the Secretary for Labour.*

it is evident that the boom in gold-mining and housing and the governmental expenditure on public works would exercise a pronounced expansionist influence. Accordingly, the indices of economic activity which had declined during the depression, underwent a reverse movement, often attaining new records. The export trade, and imports in particular, also recovered, while the terms of trade turned heavily in favour of the Union on account of the inflated price of gold. Employment in general advanced very considerably and the European applications received by the Labour Exchanges declined, at first only in the urban centres, but also in rural regions after the great drought of 1933.

The influx of capital, consequent to devaluation, produced an abundance of funds awaiting investment, and, together with the favourable balance of trade, it swelled the surplus on payments account. The necessity of a punitive rate of discount having thus disappeared, Government adopted—or rather, acquiesced in—a régime of cheap money and easy credit. The bank rate of discount was reduced progressively while the commercial banks also pursued a more liberal lending policy. It is indicative of the ensuing monetary situation that demand deposits were more than doubled, partly in consequence of a 50% reduction in the percentage of time to total deposits. The expansive monetary policy is without doubt the outstanding assistance rendered by the State to private industry—exclusive of agriculture—during the period of recovery. The low interest rates were a welcome departure from the traditional policy of maintaining discount and interest rates at a high level; and, since long-term mortgage indebtedness had been contracted at higher rates in earlier years, farm mortgage interest was reduced statutorily in 1933 to a maximum of 5%, subject, in addition, to a Government subsidy of $1\frac{1}{2}$%.

13. In contrast to the general expansive economic policy, the agricultural measures applied by Government retained their original character as determined by

depression conditions. Thus export subsidies were retained on nearly 100 primary products (including minerals), owing to the low level of international prices, although they were ultimately abolished in three equal instalments spread over the years 1935–37. The protective duties and quantitative import restrictions were also maintained, while surpluses were compulsorily exported. A triple burden was accordingly imposed on South African consumers.[12]

The mere fact that an excess cost was involved in safeguarding the output of the depressed primary industries is, of course, no reason why they should have been exposed to abnormal outside forces. Moreover, it would have been fatal for many branches of primary industry if all artificial assistance had been withdrawn. But there is no reason why internal prices should have been fixed at the excessively discrepant levels which did obtain, or why exports should have been forced to the same extent as formerly. The flaw in the post-depression agricultural policy is that production was stimulated without applying any check of either a selective or purely quantitative nature, while South African consumers were not allowed to benefit from the supply of larger quantities at lower prices, or of improved qualities comparable to the type exported. The community was emerging from a protracted depression, during which under-consumption had been characteristic. As the demand for the necessaries of life is not insensitive to changes in total income, and since under-nourishment was very prevalent, the advent of recovery clearly presented a very favourable opportunity to benefit from the growing elastic demand. Lower inland prices would in such circumstances have reduced the export loss, while also ensuring higher average returns to producers. It is true that, despite the high prices, the internal consumption of sugar, dairy products, wheat, maize, meat (as well as coal to which

[12] *Cf.* Professor C. S. Richards: *Subsidies, Quotas, Tariffs and the Excess Cost of Agriculture in South Africa, The South African Journal of Economics*, September, 1935.

identical conditions applied), expanded considerably, causing unexpected shortages in times of drought; but the increase would have been more substantial if the price-policy was adapted to the altered conditions less gradually and not at such a belated stage. Ultimately, however, a semi-expansive policy was applied; in the case of sugar by introducing a special low-priced grade; in that of maize by supplying limited quantities to *bona fide* farmers for purposes of stock feeding, and the full requirements of industrial users at export parity prices; while, in the case of dairy products, full advantage was taken of the enhanced purchasing capacity by a suitable reduction of prices and by means of the gratis distribution of cheese and milk to primary and pre-school children, and of butter at special prices to European and Coloured labourers.

Control of Cyclical Fluctuations

14. The severity of the depression resulted in extensive State intervention in the Union's economic affairs, and the range of interference did not lessen when conditions improved. Positive measures have secondary effects which call for further intervention, and, since it is necessary for Government in present-day circumstances to modify economic forces continuously in order to avoid recurrent unemployment of resources, it may be inferred that State interference will not in future diminish. As the main objective is to ensure full employment, the numerical relationship between investment and the nation's income assumes a prominent place in recovery programmes; indeed, the view is widely held that prosperity can only be maintained if private investment is encouraged by a suitable monetary policy and, if necessary, supplemented by the State from accumulated surpluses or loan funds. It is of interest to enquire into the ability of the Union Government to give effect to these measures.

Public works were extended in South Africa during the period of general recovery commencing in 1934–35,

until eventually the available permanent vacancies exceeded current needs. It may be praiseworthy to effect lasting improvements by drawing upon the income generated by a wasting asset like the gold mines, but, from the point of view of controlling cyclical fluctuations, the large national works were ill-timed, imparting an unnecessary stimulus to capital investment and causing an over-development in that direction. The less urgent schemes should rather have been delayed, in so far as it was consistent with the aim of giving employment to those Europeans who failed to secure outside employment, while the funds should have been accumulated until such time as entrepreneurial activity showed signs of deceleration. However, insufficient attention was paid to the time-factor, mainly because the civil administration has not been remoulded and adapted to the positive rôle which the State has assumed in the country's economic life. Moreover, failing the creation of an influential national body for the purpose of studying the economic situation in proper perspective, and equipped to formulate detailed plans of action while also empowered to regulate and co-ordinate departmental investment programmes, such errors of judgment are unavoidable. A positive attitude has thus been taken up in regard to public works, but it is apparent that a positive programme in that regard has not been formulated. The danger, therefore, exists that governmental investment will decline in sympathy with Treasury revenue at the very moment when an expansion of public works would have a very desirable, and not unnecessary, expansive effect.

The break with the fetish of high interest rates in a young country and the (supposed) power to regulate credit conditions with regard to internal rather than external developments, are of the utmost importance in the field of monetary policy. But the practical significance of the new-found freedom of action is seriously impaired by the inability of the South African Reserve Bank to undertake open-market operations, so that, in controlling credit, it is still limited to the old methods of

altering the rate of interest and exercising moral pressure on other financial institutions, while the events of 1931–32 raise serious doubts in regard to the reality of an autonomous rate of exchange for the South African pound so long as the present economic relationship between the Union and Great Britain continues.

This weakness of the Reserve Bank is partly due to a rigid statutory limitation on the volume and nature of the securities which it may acquire; the Bank is thereby prevented from accumulating a sufficient supply of investments for the purpose of expanding or contracting bank deposits. But open-market operations are in any case not practicable, because a real stock market does not exist in South Africa, so that the big institutions "put money into Union Government stocks registered and freely saleable in London, rather than into stocks registered in this country and only with difficulty realized if large parcels are for sale."[13] Since 1935 there has, however, been an increase in the proportion and total amount of the internal debt of the Union Government, while average annual investments by the two large banks in Union Government stocks have also risen appreciably. It would seem that the impact of a plethora of deposits and a lag in loans and discounts, may compel the banking institutions to remain in the local stock market. If so, and provided the Reserve Bank does not remain bound by an arbitrary rule in regard to the volume and selection of investments, the occasion to control the volume of credit without the regular use of the discount rate may yet materialise. Finally, the absence of a proper short money and bill market in the Union is a further obstacle. Treasury bills are, indeed, issued, but the results of years of effort to strengthen the short-term market were largely nullified when, as a result of increased revenue collections, their issue was temporarily discontinued in 1933. It is not evident that such a drastic step was necessary, as Government could easily have held an

[13] *Report of the Eleventh Ordinary General Meeting of the South African Reserve Bank*, p. 11.

adequate amount of its indebtedness in floating form, in order to keep the short money market in being.

It is symptomatic of the weakness of the technique of credit control in South Africa that the commercial banks have since 1933 maintained excessive ratios of cash reserves to total deposits; although they have tended, since 1936, to reduce the volume of idle funds by increasing their investment portfolios, that process has not advanced sufficiently to permit of the restoration of the customary ratios. The possession of surplus liquid assets involves a large degree of independence, so that a mere increase in the Reserve Bank's discount rate may well prove to be an impotent measure, unless it is accompanied by suasion, or by extensive open market operations for which the central bank is not properly equipped, as there is no need to resort to the Reserve Bank for rediscounting facilities. Furthermore, at the height of the recovery, the Reserve Bank was powerless to check the pronounced share boom without increasing the rate of discount—a step which it could not take as all borrowers would have been penalised equally.

Finally, it is relevant to note that the expansive effect of low interest rates and Government expenditure on public works are of minor quantitative importance compared with the corresponding influence which emanates from gold-mining investment in South Africa. The success of official efforts to maintain full employment is, therefore, fundamentally dependent upon the continued activity of the gold-mining industry and attention will be given to that factor in the concluding chapter.

CHAPTER IV

PROTECTION OF MANUFACTURING INDUSTRIES[1]

Historical

1. The handiwork of the ubiquitous craftsman, the manufacture of cane sugar in Natal and the distillation of spirits in the Western Cape were the principal forms of manufacture in South Africa until the South African Republic embarked upon its concession policy in 1881. The Republican Government was intent upon lessening its dependence on the outside world and decided to grant monopolistic rights to individual enterprisers in order to speed up the country's economic development. The concessions often stipulated, in addition, that the Republic would guarantee the interest on capital, share in the profits, exempt the enterprise from taxation and impose protective duties. Though abused by rapacious monopolists and speculative concessionaries who aimed at selling and not utilising their rights, the concession policy was not a total failure nor was it quite inappropriate having regard to the scarcity of local capital and the absence of public authorities comparable to present-day corporations. Thus, when it was resolved in 1896 not to proceed further with the much maligned concession system, it had already provided the Republic with many important ventures, some of which prosper to this day, including: railways, municipal tramways, gas, street-lighting, electrical power and water works, commercial banks and a mint, a distillery (catering for the illicit Native liquor trade), and a cement, brick and tile, tanning, dynamite and explosives factory. Of course,

[1] Based in part on an unpublished article and thesis on *The Economic System of the South African Republic* and *The Foreign Trade Policy of the Union.*

many concessions did not materialise, such as: the manufacture of sugar from maize, kaffircorn, sugar-beet and Transvaal sugar-cane (for which purpose 20,000 morgen were allocated in Lydenburg); the erection of woollen textile, paper, porcelain, candle and match factories; an iron and steel plant; a casteroil factory; and damming the Vaal River for commercial steamship travel!

2. In 1903, British South Africa formed a Customs Union, adopting a tariff based on a general revenue duty of 10% *ad valorem* (subject to a preferential rebate of 25%), and providing for higher duties on grain, flour, spirits, sugar, tea and tobacco. Although not protective, with the advent of industrial undertakings which could make an admissible claim to protection, the tariff was suitably altered. Thus, in 1906, higher duties were imposed in the interests of the footwear, saddlery harnessmaking and printing industries, while the members of the Customs Union also agreed in that year not to vitiate tariff protection by equalising railway rates on imported and local articles. The customs agreement did not, however, operate smoothly and competitive railway rate wars were not unknown, primarily because the coastal Colonies were incensed at the Milner *modus vivendi* of 1901 which safeguarded Delagoa Bay's share in the inland traffic of the Transvaal. The formation of Union in 1910, however, finally ended the bickering over the relative shares of the Cape and Natal Ports in that traffic and created an opportunity to recast the customs tariff in the interests of the country as a whole.

3. In 1910, the Sir Thomas Cullinan Commission on the Condition of Trade and Industries, recommended to Government that it would be in the best interests of the country that adequate protection be accorded to agriculture and to industrial undertakings. In order to ensure that excessive protection would not promote inefficiency and eventual decay, the following criteria were suggested to which an industry should conform

prior to receiving tariff protection: A reasonable proportion of local raw materials should be used, a fair percentage of European labour should be employed, and a reasonably certain chance of success should exist. Despite these recommendations, the Union tariff of 1914 was not, however, purposively protective. Rather, like the former Colonial tariffs, it was primarily revenual though protective duties for such industries as had emerged were incorporated in it, as also a list of free articles used in primary and in established secondary industries. However, the number of protected industries far exceeded those of Colonial times, while the basic revenue duty of 20%, compared with the former general duty of 10%, facilitated expansion in other directions. Moreover, in due course, the number of specific duties was gradually increased for protective (and revenue) purposes.

4. Thereupon the Great War supervened and occasioned conditions which had a signal influence on the Union's tariff policy. The earlier belief that the Union should rightly export raw materials for transformation in overseas factories, and the real obstacles which were encountered—high wage costs, a restricted European demand, and the low consumptive standard to which the Native population seemed foredoomed—had resulted in a slow rate of economic evolution and a retarded manufacturing technique. But these considerations were divested of their potency when the Great War threw South Africa almost entirely on her own resources. The scarcity of shipping facilities, increased freight rates, soaring prices, the difficulty in obtaining the usual quota of overseas manufactures and the entire inability to import some, were of great help to every existing industry and the cause of the emergence of numerous new manufacturing enterprises. Concurrently with this burst of activity in industry, a significant change of public opinion became manifest: since industrialisation had proved feasible, commercial and official scepticism declined and the consumers became acquiescent.

Manufacturing activity was further stimulated by the inflated prices of the immediate post-War years. But, when, from 1921, the international price level commenced to decline rapidly and Government adopted a deflationary policy, it became imperative, in the face of total collapse of the entire industrial structure, to protect the local manufacturing industries. The existing tariff was obsolete and as it had no protective basis it proved totally inadequate for that purpose. A tariff revision was therefore essential, and was indeed, overdue; but not until 1925 did the welter of political casuistry permit of a thoroughgoing tariff reconstruction.

The Operative Legislation

5. With the enactment of the 1925 Customs Tariff Act, South Africa became pledged to "the Government's policy of promoting industrial development wherever possible"[2] by appropriate manipulation of the tariff as an instrument of protection. While the rates of duty have been amended annually in the light of changed conditions, the 1925 Tariff Act has remained the succinct embodiment of the policy of protection.

In recommending its adoption, the Board of Trade and Industries emphasised that it took account of the fact that customs duties constitute the chief source of Union revenue, but was also based upon the following considerations:

(*a*) It should serve to protect established industries and encourage further industrial expansion upon an economic basis, and, by coercing the recipients of protection, create a larger field for the employment of civilised labour.

(*b*) Essential industrial materials, not produced locally, should be admitted free of duty if financial circumstances permit.

(*c*) In determining the level of customs duties, care should be taken to safeguard the primary industries

[2] *Board of Trade and Industries Report* No. 125.

against high production costs resulting from an increased cost of living.

6. Agricultural protection has often taken the form of prohibiting or regulating imports. Industrial protection has, however, been achieved exclusively by means of customs taxation, of which four variants have been developed.

First, the effective duty may be increased on an *ad valorem* basis, or by the levy of a specific duty should the objective be to accord protection against competing low-priced articles. In order to encourage local assembly and packing operations, the practice has been adopted of placing a lower duty on the product concerned when imported in bulk or in an unfinished state. A related device is the provision of suspended protective duties, which may be applied or withdrawn by proclamation, depending upon the progress of the industry which it is desired to protect.

Second, essential raw materials, not available in the Union, as well as fixed plant and machinery, are either dutiable at nominal rates or gain entry free of duty in order that production costs may be held at a low level. It is obvious that a clash of interests is bound to arise in the application of this principle. The manufacturers are usually eager to obtain raw materials at world prices, while the local primary producers are covetous of protection against foreign products.

Third, an elaborate system has been evolved whereby essential raw materials are admitted under rebate of the whole duty when supplied to registered manufacturers, while ordinary imports thereof remain dutiable. Known as Class XV of the tariff, the rebate facilities are indicative of the dual purpose which the South African customs tariff serves, namely, to promote local industry without jeopardising the revenual purpose in undue manner.

7. In applying the three measures of promoting industrial development outlined above, standard criteria, to which the applicants should conform, have been formulated by the Board of Trade and Industries, which

body is invested with the function of investigating and reporting upon all applications for tariff assistance. The main guiding considerations have been that:

(*a*) The industry should be in existence and in need of assistance.

(*b*) The industry's productive capacity and efficiency should be such as to permit of the supply of a substantial portion of the domestic demand.

(*c*) The industry should be able to employ a reasonable proportion of civilised labour (interpreted as European labour).

(*d*) Where possible, South African raw materials should be used. Moreover, industries based almost exclusively on local raw materials are eligible for a higher degree of protection. Generally speaking, the application of that rule proved necessary because the industry supplying the raw material is itself frequently protected.

(*e*) The enhanced protection should not involve higher production costs to the primary industries, inclusive of gold-mining, or give rise to an increase in the cost of living. To that end the Board of Trade and Industries frequently requires the assurance that prices will not be raised in the event of the application of protective duties. During recent years, price fluctuations have shown a wide amplitude, and since these movements are not generally within the control of a particular industry, the prior assurance that prices will be maintained is not a real safeguard. Indeed, it is doubted whether prices are invariably maintained—despite the conditional undertaking.

8. In order that the protected industries may not abuse their preferred position, the protective duties may by proclamation be substituted by the minimum duties in the Union's three-line tariff, should it appear upon investigation, and despite the issue of a proper warning, that unduly high prices are charged, monopolistic powers or a restraint of trade are exercised in a manner injurious to the public interests, or, finally, if

unsatisfactory labour conditions are maintained. These provisions have never been applied and do not constitute an effective punitive measure on account of the fact that the withdrawal of the protective duties would affect the entire industry while only one or a few firms may be guilty of the malpractices which it is desired to prevent.

It is remarkable that no provision exists for the diminution of preferential margins whenever the protected industries cease to be in need of tariff assistance. This is an omission of fundamental importance, which the Customs Tariff Commission of 1934 to 1935[3] vainly sought to rectify. It is clearly paradoxical that while a variety of conditions must be complied with in order that applications for increased duties may be viewed favourably by the Board of Trade and Industries, no systematic endeavour is made by that Board to ascertain whether, on the same or on other grounds, the continuation of protection is still merited. Uneconomic industries which have failed to conform to the original expectations entertained in regard to them, may, therefore, remain in existence; similarly, protective duties may be retained although the infant industries have matured and are in no further need of assistance. This function, which should devolve upon the competent Board, was performed in 1934 to 1935 by an *ad hoc* Customs Tariff Commission which found themselves in the position to advise a considerable number of duty reductions in the field of secondary industry. The recommendations of the Commission were put into force during the upswing of the trade cycle, and accordingly served the very useful purpose of demanding a larger measure of self-reliance from the Union's industrialists at a time when prosperous conditions served to lessen the impact effect of the adjustments in question. It appears to be desirable that a similar, but more comprehensive, review be undertaken regularly whenever the economic barometer is set towards expansion and prosperity.

[3] U.G. No. 5, 1936, para. 248.

9. In administering the powers, conferred by the Customs Tariff Act, No. 36 of 1925, in reference to the free admission of industrial requisites, the Board of Trade and Industries applies certain appropriate criteria. Thus, applications only receive favourable consideration if the materials and requisites in question, though essential, are not produced locally in sufficient quantity or of suitable quality. Moreover, the industry concerned must derive sufficient stimulus from the arrangement to permit of an indirect expansion of Treasury revenue on account of the resulting general growth of the community's purchasing power. The rebates of duty on such essential requisites as are specified for the different industries in Tariff Items 336 *et seq.*, are enjoyed by registered manufacturers under rebate who have complied with the regulations issued by the Commissioner of Customs and Excise. The rebates are, therefore, enjoyed by individual manufacturers, and for that reason the system is eminently suited as a means of penalising those concerns which abuse their protected position. It is an empirical fact that small factories often maintain unsatisfactory labour conditions, and, in addition, they are often incapable of economic production owing to their inability to benefit from the economies of size. Since they are socially undesirable on these grounds, a provision was incorporated in the Act in 1936 that manufacturers would only be eligible for registration as manufacturers under rebate if the number of operatives employed in the factory exceeds a number to be specified by the Minister in respect of the industry concerned. It is evident that the optimum size of productive units varies as between different industries. Partly because it is not feasible to proclaim the same minimum quantity of employees for all the manufacturing industries, and partly because a large number of factories would not be eligible for registration however conservative may be the specified minimum number of operatives, this provision has not hitherto been applied.

Extensive use has been made of the rebate system as

a means of placing South African manufacturers on the same footing as their foreign competitors insofar as access to the market for industrial raw materials and requisites is concerned. An increasing amount of customs revenue is being sacrificed as duty-free admissions of materials for industrial purposes are expanding year by year.

Anti-dumping Duties

10. While the preceding discussion of the *modus operandi* of the Union's policy of facilitating the process of industrialisation does not diverge from accepted principles of tariff policy—and, indeed, portrays a very conservative application thereof—South African tariff legislation is rather unique in that it embodies an extensive set of provisions which are designed to implement the very determined anti-dumping policy. It is, therefore, of interest to discuss the anti-dumping measures of the South African tariff in some detail.[4] Although the term " dumping " has been internationalised, it has a variegated use. In scientific literature [5] it generally signifies price differentiation as between national markets in the sense that the export price is less than the purchase price to consumers in the country of origin. It is necessary to qualify this definition by observing that the price comparisons should relate to quotations of similar date and involving identical conditions of sale. Moreover, the proper date of the quotations is the time of purchase (and not of export), as the imposition of a dumping duty, calculated on the basis of a later price comparison, would deprive importers of any advantage resulting from advance purchases in a rising market. Finally, account must be taken of the additional costs which exportation involves.

11. It is not proposed to discuss the dumping pro-

[4] The only existing account is rather obsolete, *vide Economica*, February, 1931, Professor Plant.

[5] *Cf.* Professor Plant, *ibid.*, p. 9.

visions of pre-1925 tariff legislation,[6] and attention will, therefore, be confined solely to subsequent statutory measures.[7] The relative legislation provides that for the purpose of determining whether dumping takes place, a comparison must be made between the export price and the domestic value *plus* the extra costs incidental to placing the goods on board ship ready for exportation to the Union.[8] The export price is the f.o.b. price to the importer, or one-half of the foreign domestic value in the case of gifts and goods on consignment.[9] The domestic value, for dumping duty purposes, is the usual wholesale price in the country of exportation at the date of purchase,[10] *plus* the cost of packages ordinarily used in those markets.[11] Excise duties[12] and drawbacks of duty on exportation[13] are deducted from the domestic value, since the net receipts of the exporter for internal sales are reduced by that extent. It is evident that the operative legal provisions concerning the price comparison which is necessary to establish dumping are on a formal scientific basis.

12. Preparatory to a further analysis of the Union's legislation, it is desirable to enquire into the circumstances which lead to dumping. It is customary to classify dumping as sporadic, temporary and permanent.[14] Sporadic dumping generally involves the disposal of a surplus which might otherwise spoil the local market or become valueless during the next season. For instance, fashion goods are regularly sold in this manner by countries in the Northern Hemisphere to the Southern States. Temporary dumping has a more bellicose purpose. It is usually resorted to in order to force an

[6] See Professor Plant, *ibid.*, for an account.

[7] The Custom Tariff and Excise Duties Act, No. 36 of 1925, as amended annually.

[8] *Op cit.*, section 15.

[9] *Op. cit.*, section 19.

[10] *Op. cit.*, section 19, proviso.

[11] *Op. cit.*, section 14 (i) and (3).

[12] *Op. cit.*, section 14 (3).

[13] *Op. cit.*, section 19.

[14] *Cf.* Plant, *op. cit.*, and Haberler, *Der Internationale Handel.*

entry into or to retain a market, or in order to spoil the local market of a troublesome foreign competitor.

Special conditions are necessary for the practice of permanent dumping, as no industry can export at a loss indefinitely. Thus costs of movement should be sufficiently high to prevent the profitable re-importation of the dumped goods, while price competition within the exporting country should be effectively regulated, as the self-interest of each producer would otherwise lead to an internal price reduction. If the foregoing two conditions are satisfied and the industry is operating at declining marginal costs, enlarged output, consequent upon overseas dumping, will reduce average costs and may conceivably cause a lower internal price to the advantage of national consumers. In view of the fact that falling marginal costs are symptomatic of the existence of surplus productive capacity, dumping, as a long-term expedient, is generally associated with the downswing of the trade cycle. Furthermore, continuous dumping is facilitated by the existence of national and international cartels.

13. The imposition of anti-dumping duties rests on the assumption that dumping is detrimental to national interests. This assumption warrants analysis, as it is obvious that if the dumped goods do not compete with an existing industry nor prevent its establishment, the importing country is not harmed. Thus insofar as sporadic dumping is concerned, the damage inflicted on individual producers may conceivably be outweighed by the advantage derived by consumers. If it is entirely sporadic, local price relationships are temporarily upset, but, provided that it does not occur intermittently, there is little likelihood that producers' interests will be jeopardised to any considerable extent. Indeed, if, as in the case of women's fashion dresses, dumping, though sporadic, has a seasonal regularity, there may still be a decided national advantage in so organising the local industry as to accept the periodical influx as a regular occurrence. In regard to temporary dumping, if it is

undertaken with the purpose of ruining an existing local industry, or with the object of preventing its establishment, the national interests are not served by countenacing it.

So soon as dumping assumes a long-term complexion some difficulty is experienced in adjudging whether or not it is in the interests of the importing country that it should be tolerated. If definitely permanent, and particularly if it involves the sale of surpluses by competing foreign producers, an opportunity arises for local industry and the consuming public to derive considerable benefit from the low-priced raw materials, capital goods or foodstuffs; precisely in that way, British industry and the British consumer have for many years enjoyed cheap raw materials and foodstuffs. But if for any reason it is considered desirable that a local industry should supply the country's needs in full, there is no alternative but to check such dumping. Furthermore, if long-term dumping is an accompaniment of the downward trend of the trade cycle, consumers benefit from the unhindered entry of dumped commodities, but at the expense of local industry. As it is desirable not to disrupt the entire productive structure at a time when internal economic activity is probably already at a low ebb, anti-dumping duties assume an enhanced importance whenever the trade cycle leads to extensive dumping.

14. It is not practicable to enact distinct measures to combat sporadic, temporary or long-term dumping. Yet it is clear that if dumping of a sporadic or temporary nature is considered harmful to local industries, the anti-dumping measures provided by law will only achieve their purpose if the countervailing duties are decreed immediately. In practice, anti-dumping legislation is defective in this respect. Prior investigation is necessary in order to establish dumping and to measure its extent, and it is not always an easy matter to secure comparable domestic wholesale prices. To that end, South African Customs Investigating Officers have been stationed in London and New York and their proximity

to the principal supplying countries is an expediting factor. Sometimes comparable domestic wholesale prices are non-existent and arbitrary determinations are then permitted by law.[15]

15. It is the avowed policy of the Union Government to safeguard local industries against dumped goods, although anti-dumping duties are not considered to be on the same footing as protective duties, but are regarded as a means whereby such protection as has been accorded is made effective. Thus the South African Customs Tariff Commission held[16] that whereas customs duties are intended to upset the normal working of economic forces, dumping duties merely serve to restore a balance which has been destroyed in an uneconomic manner.[17] It has, however, been shown that the imposition of dumping duties need not invariably be in the national interests, and on that account the Tariff Act stipulates, in addition to the general proviso that dumping duties may only be imposed if detriment is suffered by an existing industry in the Union, that their imposition must be in the public interest.[18] Refusal to impose a dumping duty despite the knowledge that dumping actually occurs, is an important method whereby con-

[15] *Op. cit.*, section 14 (4). Even ascertained values are often arbitrary, and exporters are not sympathetic, although they cannot refuse assistance in fear of damaging their position. The following are examples of the difficulty experienced in determining domestic values: the Belgian steel industry is based on exportation and no local market quotations exist; very often, too, the product is used locally, but the exported article is specially manufactured and its costs are different. In regard to Russia, the domestic market is not competitive and prices can at best be estimated, while the artificial German exchange rate produces excessive domestic prices in the process of conversion into £ South African.

[16] *Op. cit.*, para. 324.

[17] With a show of logical inconsistency the Commission, while recommending the maintenance of the Union's dumping legislation, modified their adherence by stating that as far as possible raw materials should be exempted and that care should be taken that the assistance accorded by means of dumping duties to industries which do not cater for the whole market, does not impose an excessive burden on consumers. *Op. cit.*, paras. 325–28.

[18] *Op. cit.*, section 15. It may be observed, incidentally, that since a local industry must exist, dumping duties may not be levied in order to protect one supplying country against the inroad made by competitors which practise dumping.

sumers' interests are given a preference relative to those of South African producers.

16. In the event of a negative discrepancy between export and corrected domestic wholesale prices, an ordinary dumping duty, equal to the difference but not exceeding 50% of the value for duty purposes, may be imposed by proclamation on imports of dumped goods from the particular exporting country subject to the statutory provision that the difference is greater than 5% of the export price.[19] This margin is allowed in recognition of the arbitrary element which inheres in the determination of corrected domestic wholesale prices. In 1936 an important amendment was effected to the Act by providing that, within the 5% and 50% limits, ordinary dumping duties may be reduced to a percentage of the value for duty purposes or to a specific rate per unit.[20] In recommending this amendment the Board of Trade and Industries reported that several foreign Governments had represented that ordinary and exchange dumping duties often have the incidental effect of diverting trade from one foreign supplying country to another.[21]

"Prior to the depression, international competition still operated in the direction of establishing a more or less uniform world price level for the more important export commodities, so that the Union's method of determining dumping on the basis of domestic values in the exporting country did not, on the whole, place any undue burden on any particular country. However, the position has altered materially as a consequence of the changes in world economic conditions. Many countries have, in one way or another, endeavoured to maintain or raise their internal price levels, while on the other hand exports were forced in order to protect the currency. The relationship between internal price levels and export prices has, therefore, been disturbed, with the result that discrepancies among the domestic values of the various countries have assumed serious dimensions. This development specially

[19] *Op. cit.*, section 15 (i).
[20] *Op. cit.*, section 14 (2) (a).
[21] *Report* No. 206, para. 17.

affected the gold standard countries, which found it difficult to deflate their internal prices to the level ruling in countries with depreciated currencies. They are forced to reduce their prices in order to compete in world markets, but on exportation to the Union they are exposed to the danger of the imposition of dumping duties calculated on their higher domestic values. Moreover, it must be admitted that the internal price level in some countries is so high that the imposition of a dumping duty to the full extent of the difference between the domestic value and the export value . . . raises the price of the imported product far above what is required by the South African industry."

"Dumped" products of such countries are, therefore, excluded entirely from the Union market whereas the intention of a dumping duty is merely to re-establish the competitive position (which may, on occasion, be tantamount to complete exclusion of competing imports). While the imposition of a higher customs duty would serve equally well to accommodate the countries concerned and enable them to retain their normal share of the import trade, that course would needlessly encumber the trade of the remaining supplying countries. Accordingly, the amending Act introduced the principle that, if necessary, ordinary dumping duties on products dumped by particular countries may be limited to the amount necessary for the protection of the South African industry.

17. Although the export price may actually not be less than the corrected domestic wholesale price, the imported goods may be sold within the Union at a lower figure; hence, provision is also made for the levy of a sales dumping duty, equal to the negative difference between the selling price in the Union and the corrected domestic value *plus* shipping charges, insurance, costs and the customs duty.[22] In 1933[23] the Board of Trade and Industries recommended that the provision in question be extended to apply to sales made elsewhere than at a port of entry, because the sales dumping duty

[22] *Op. cit.*, section 15 (i) (d).
[23] *Report* No. 155.

could easily be avoided in terms of the law, as it then read, by selling at any place in the Union other than the port of entry. Effect was duly given to that recommendation.[24]

Although not formally included in the earlier definition of dumping, it is clear that the same phenomenon arises when overseas exporters receive a subsidy or bounty to supplement the export price. Accordingly, provision is made for the levy of a countervailing bounty dumping duty equal to the subvention accruing to the exporter.[25] Ordinarily, sales and bounty dumping duties may not exceed, jointly or singly, 50% of the value for duty purposes of the dumped articles. In consequence of this percentual limitation, consumers are in any case assured of the benefit of dumped prices to the extent that they are below one-half of the corrected wholesale domestic prices of the products concerned.

18. By an extension of meaning, the term " dumping " has been applied to freight and exchange dumping as defined in the Customs Tariff Act. From time to time different methods have been evolved of counteracting the resulting ill-effects on South African industry, and if it is considered in the public interest, countervailing freight and exchange dumping duties are imposed.

In terms of section 12 (3) of Act No. 23 of 1923, the Minister was empowered to impose a special duty on goods imported at a freight rate which is so low that detriment is caused to the relative local industry. The special duty equalled the difference between the actual freight and the (normal) freight as determined by the Minister. In 1924 the Board of Trade and Industries,[26] impressed by the arbitrary nature of the impost, recommended that a freight dumping duty be calculated in accordance with the following formula, incorporated in Act No. 36 of 1925: A freight dumping duty may be imposed to equal the difference between the freight paid

[24] Act No. 40 of 1934.
[25] *Op. cit.*, section 15 (i), (e) and 15 (2) (e).
[26] *Report* No. 42.

and the freight normally payable, at the date of shipment, in respect of cargo classified on a similar basis for freight rate purposes. The freight dumping duty could, however, only be levied if the duty-paid value of the goods equalled £10 or more per long ton, and it must be assumed that for bulky goods with values below that figure, the advantage derived by consumers was thought to exceed the social utility of the local industry exposed to freight dumping.

The above formula proved unsatisfactory during freight wars, as a tendency is then present to reduce the rate of freight for entire classes of goods. In 1935, for instance, the South African Conference Lines reduced their freight rates on certain iron and steel products in order to check the practice of tramp steamers of accepting bulk cargo at distress rates. In respect of those iron and steel products which are typical of the output of Iscor, the freight reduction equalled as much as 60%; but, in the absence of a normal freight rate from Europe and from America *via* the East, no countervailing freight dumping duty could be assessed. Accordingly the Act was amended as follows in 1936[27]: Whenever it appears after investigation by the Board of Trade and Industries that a product is being imported, with detrimental results to a South African industry, at a rate of freight less than the normal freight rate as certified by the South African Shipping Board, the Minister may determine a minimum rate of freight for delivery of that product at the several ports of discharge from a designated country. If, after notification of the minimum rate of freight, imports occur from the particular country at a lower rate, a freight dumping duty may be imposed to the extent of the difference.

19. With reference to exchange dumping, the 1922 Act established an arbitrary basis for the assessment of exchange dumping duties. The Minister had to determine a rate of exchange (usually the par rate) between the depreciated currency and the South African currency

[27] Act No. 25 of 1936.

unit; the percentage difference between the determined and market exchange rates was then assumed to denote the percentage of exchange dumping and a corresponding duty was levied, provided that the exchange depreciation exceeded 5% while any depreciation above 50% was ignored. Act No. 36 of 1925 altered the basis of assessment by providing that the exchange dumping duty should equal the difference between the export prices of similar articles derived from countries with and without a depreciated foreign exchange value of their respective currencies. It proved extremely difficult to find similar articles for purposes of comparison, and the legislative provision became entirely impracticable when exchange depreciation assumed international dimensions after 1929. Accordingly, in 1931, the pre-1925 method of assessment was reverted to. The limits of 5% and 50% within which the percentage value of the exchange dumping duty could fluctuate, were also maintained. They were, however, abolished in 1936, although a 5% margin is still applied in practice by fixing the conversion rate at 5% below parity. In terms of the existing provision, while it may not exceed the actual extent of exchange depreciation, the exchange dumping duty may be limited to the amount or percentage actually required for protective purposes. Hitherto no effect has been given to the amendment in question, but it will conceivably be utilised in order to remove the most objectionable feature of the Union's exchange dumping legislation, in that the extent of exchange depreciation has in the past been employed as the sole criterion of the extent to which exchange dumping is practised, without regard to the fact that a tendency exists for costs of production to increase in the country concerned thereby lessening the exchange advantage.

20. Finally, it may be observed that proclamations relating to dumping duties other than exchange dumping duties, are seldom withdrawn, on the ground that the provision for a dumping duty acts as a deterrent. Indeed, it is claimed that a dumping duty is only successful when

no duty is collected. Exchange dumping duties have, however, been withdrawn after *de facto* (as distinguished from *de jure*) stabilisation; but, since wholesale prices are employed as a means of determining whether the country's internal price level has or has not adapted itself to the altered exchange value, it is evident that exchange dumping may still continue after the withdrawal of the exchange dumping duty, as production costs do not generally rise as quickly as wholesale prices. In general, the statistical difficulties involved in the determination of the extent of exchange dumping are so considerable that the administration of the Union's exchange dumping legislation is without doubt the most arbitrary of all the related protective measures.

21. Constant objections are raised by foreign supplying countries against the Union's dumping legislation, and the powers granted in 1936 in regard to the possible limitation of the amount of ordinary and exchange dumping duties are indicative of the disfavour with which the system is regarded. On the whole, the Union has endeavoured to accommodate the supplying countries. But, since the principle of introducing anti-dumping measures is adhered to as a matter of policy, the only effective remedy is for the exporters which resort to dumping—many do, as the extensive list of countries figuring in the relative proclamations shows—to abstain from that practice. In terms of the Act,[28] exchange and freight dumping duties alone may be imposed in respect of the goods shipped to the Union prior to the date of proclamation of the duty. But, in order to enable foreign Governments to prevent the occurrence of dumping, the practice arose in 1934 of giving six weeks' notice to the countries whence dumping occurs. Prior notice is confined to contemplated ordinary and bounty dumping duties and to cases where freight or sales dumping is practised by shipping companies or exporters who are subject to the jurisdiction of the country whose goods are dumped. For the rest, no notice of the inten-

[28] *Op. cit.*, sections 15 (e) (i) and 15 (7).

tion to impose a dumping duty is given as the Governments concerned would in any case be powerless to check it, and the exporters concerned would meanwhile have been in the position to ship substantial supplies so that the preventive measures would become increasingly ineffective.

22. Finally, a special type of protective duty has been employed in order to assist the local iron and steel industry. Immediately after production was commenced at the Iscor works, the International Steel Cartel inaugurated a systematic dumping campaign; thus, heavy rails were consistently exported to the Union at lower prices than light rails with adverse results to the new infant industry. Moreover, it proved impossible to impose a dumping duty on Belgian steel since, in the absence of a domestic demand, no comparative domestic price could be determined for the purpose of establishing that dumping was actually practised. Accordingly it was provided in Section 9 of Act No. 25 of 1936, that average c.i.f. world prices, at Union harbours, can be determined; if, after notification of these fair average world c.i.f. prices, specified iron and steel products are imported at lower c.i.f. prices, the difference may be assessed as a special duty. In that way the prices of imported iron and steel goods of different kinds are raised to pre-determined levels, representing the fair average price on the world's markets, and Iscor is assured of an adequate share of the local market for iron and steel goods. Since Iscor only caters for the inland market, an incidental result of these special c.i.f. duties is that the coastal consumers of imported iron and steel goods are burdened with an additional impost in order to protect an inland industry in which they have no direct interest. C.i.f. prices at South African ports of entry were notified in pursuance of this scheme in March, 1937. Owing to the international steel boom which had meanwhile supervened, world prices had reached a substantially higher level, so that, for the time being, no special c.i.f. duties were actually collected.

Industrial Development

23. The foregoing protective devices have been applied consistently since 1925, and there can be no doubt that by safeguarding the internal, but particularly the inland, market for domestic manufacturers, industrialisation was facilitated. Indeed, in the ensuing decade the gross value of industrial output was almost doubled. It is noteworthy in this regard that although industrial establishments have tended to concentrate in the proximity of the densely populated mining area of the Southern Transvaal, doubtless because so many of them are complementary to, rather than a possible substitute of gold mining, the industries which are dependent upon imported raw materials have persistently congregated in the chief ports; that tendency has been strengthened by the extension of the system of duty remission on industrial requisites.

In accepting a policy of protecting domestic manufacturing industries, Government was influenced by their value in providing employment for civilised labour.[29] Employment statistics indicate that the objective was achieved, but it is necessary to stress that the operative industrial legislation also compels industrialists to maintain an increasing ratio of European employees. A notable feature, and probably one which was not fully appreciated at the time, is that a growing number of European females have been absorbed, so that the proportion of European female to European male employees increased from 15% to 25% during the first ten years of protection, largely on account of the quicker rate of progress of many industries with European female labour ratios which are above the average. Having regard to the selective character of gold-mining employment, the limited scope for females in both mining and agriculture, and the continued influx to the towns of all races, it is evident that the protective policy was well advised and has facilitated social adjustment.

[29] *Cf.* paras. 2 and 7 of the *Report of the Customs Tariff Commission*, 1934–35.

THE MULTIPLICATION OF UNECONOMIC UNITS

24. The possibility of developing industries by the application of protective duties, and of withdrawing these subsidies contributed by consumers after the infant industries have reached maturity, is a controversial issue of long standing. It is proposed to refer to only two important factors, characteristic of the position in the Union, which serve to postpone the time when the protected manufacturing industries will be capable of maintaining themselves upon an economic basis. The South African Customs Tariff Commission stated that "the greatest competitive drawback of South African industry is the high cost of European labour, and the protection which exists is to a large extent a protection of the wage rates payable to Europeans in industry in South Africa."[30] There is no doubt that protective duties and high European wages are complementary; but it is questionable whether from a world competitive viewpoint, South African manufacturing industries are, on that account, at a total disadvantage compared with industries in the Western countries, as the high wages earned by Europeans are offset by the low earnings of the Native workers who constitute approximately 50% of the labour force.

It would appear rather that the chief reason for the uneconomic nature of many established manufacturing industries, is the limited character of the internal market. That factor is also the most potent obstacle to progressive industrialisation by the establishment of industries which are at present non-existent in South Africa. Indeed, the restrictive effect of the small local demand is generally accepted as the most untractable of all the disadvantages with which the South African industrialist has to cope. The Customs Tariff Commission summarised the difficulty in convincing terminology—although they under-estimated its relative importance:[31]

[30] *Op. cit.*, para. 126.

[31] *Op. cit.*, section 5B (i). The remarks have been joined and the sequence altered slightly.

"In most of the branches of machine-industry very considerable economies are possible if production is on a large scale. The General Manager of African Explosives and Industries, Limited, stated that one of the reasons why they could produce explosives in competition with free imports was the large scale of their production. In the great bulk of South African industries, however, the limited size of the local market and the high cost of manufacture which rules out the export market, make it impossible to take the fullest advantage of the economies of large scale production. Another group is at a disadvantage because of diversity of production which must be undertaken. When the market requires different qualities or grades, it is at times not possible to cater for this diversity even inside the protective barrier. The net effect is that economic efficiency, judged by the criterion of costs of production, is low."

25. It is considered, furthermore, that the productive inefficiency which is an inevitable counterpart of the bulk of small-scale manufacturing, has been further accentuated by the emergence of a superfluity of puny establishments in certain classes of industry, resulting in a chronic excess capacity and high unit costs. Existing census data do not reflect to what extent available capacity is utilised. But, since 90% of the establishments, accounting for one-third of the total number of workers, have not more than fifty employees, it is evident that the existence of a protective barrier and the unrestricted opportunities to establish a consumers' goodwill,[32] have produced an excessive number of undersized factories in South Africa. Diminutive outputs do not permit of a spreading of costs, or of the introduction of labour-saving devices, nor of the full application of division of labour, with the same facility which is possible in large-sized factories; it may, therefore, be inferred that the demand for an increased margin of protection and the disfavour with which the high-wage policy is regarded, will be perpetuated. Failing a rapid and continuous growth of the internal market, enforced rationalisation and the application of licensing control by the Board of Trade or other competent authority, are

[32] *Cf* Chapter I, *ante*.

the only means of ensuring that the policy of industrial protection and stimulation will accomplish its object of enabling the protected industries ultimately to achieve an economic basis of production.

26. There are other ways of illustrating the extent of the above-mentioned development. Thus it is supported by the low value of average output and the considerable degree of protection enjoyed. Further, if it is borne in mind that during 1932–33, demand was at such a low ebb that the unutilised manufacturing capacity must have been considerable, one might reasonably expect that some time would elapse in order that the excess capacity may be absorbed by the expanding output which occurred in the succeeding years, before new factories would be erected. In reality, as indices of the number of establishments and the gross value of annual average output show, new factories were erected forthwith (or existing establishments were re-opened) at a rate which did not fall far short of the expansion during the early years of recovery. This in itself justifies the contention that excess productive capacity is characteristic of the Union's manufacturing industries, but the conclusion is further strengthened by recalling that prices rose from 1933; and, as the index of output is based on the value, and not the physical volume, of output, it is evident that the correlation is even closer than would otherwise appear to be the case.

It is, therefore, no wonder that statements are often made to the effect that 50% of the milling capacity of the grainmills is superfluous, or, that a third of the creameries should be declared redundant, or again, that the edible oil-expressing industry has an excess capacity of more than one-half. Failing concerted remedial action, it will remain typical of the Union that

"with a population enjoying a relatively high level of prosperity, industrialisation has taken the form of the creation, behind tariff barriers, of comparatively small concerns, producing at high costs and charging high prices for their products. The newly created industries are not necessarily dependent on mass production for

their success, and may live primarily or completely on the home market. Thus the country loses most of the benefit accruing to it from industrial expansion since much of the gain is nominal, part at least of the increase in the national income being cancelled out by the rise in prices and in the cost of living which accompanies the substitution of home products for imported manufactured goods."[33]

[33] International Institute of Agriculture, *The World Agricultural Situation, in* 1934–35, p. 15. The tense has been changed.

CHAPTER V

AGRICULTURAL DEVELOPMENT AND MARKETING

I. Stimulation of Agricultural Production

1. The large urban communities which arose after the discovery of gold and diamonds during the fourth quarter of last century, altered South Africa's agricultural economy quite radically as the growth in demand necessitated the adaptation of the former self-sufficing farming system to the needs of production for the growing inland market. The expansion of farm output was further facilitated by improved means of transportation, which, in company with refrigeration, eventually engendered a diversified export trade. Simultaneously the Union's agricultural and pastoral industries were encouraged very actively by the State and in so many different ways that it is not possible to do more than catalogue briefly the chief methods of assistance; but even the sketchy outline which is appended will show that governmental measures are not of secondary importance to the general development of the country or to technological progress as a factor in the Union's agricultural development.

2. The principle of protecting producers in the common market of the Customs Union territory was accepted by the member Colonies in 1903, and although farming was thereafter protected by means of import duties and discriminatory railway rates against outside competition, complete unity of interests and action was lacking until formal unification in 1910. The Union Government, however, did not in the first few years of its existence take recourse to fiscal protection as a panacea for all agricultural problems. Rather, using the Colonial organisations as a nucleus, Government wisely concen-

trated on creating a well-equipped agricultural department to combat animal and plant diseases and to guide farmers. The practical results of departmental research in conjunction with the educational propaganda which has been conducted, have been an outstanding factor in the modernisation of agriculture and the progress of scientific farming.

3. The Great War, however, altered the chief direction of the Union's agricultural policy. The remunerative prices ruling until 1921 and the lack of foreign competition on the inland market during those years, led to a rapid expansion of farming in all directions. Further, the pronounced military psychology resulted in a high popular regard for self-sufficiency in the supply of foodstuffs, and it is indicative of the appeal to the economic-nationalistic sentiment of the people that a black list of food imports was published regularly by the Industries Advisory Board from 1917 to 1922 in support of official exhortation that farmers should extend their operations. In the circumstances an expansion of agricultural and pastoral production was inevitable, and between the years 1914 and 1918 the proportion of imported foodstuffs to the total value of merchandise imports declined from 20% to 10%.

The wartime ideal of agricultural self-sufficiency has never weakened, and since a pronounced social value is also attached to a large rural population—reputedly conservative, stable and prolific—it is axiomatic that agricultural protection and stimulation would be placed in the forefront of the Union's economic policy. Indeed, for the reasons mentioned, though partly as a result of politial influence, the tariff, foreign trade and railway rate policies of the country have been almost completely subordinated to the interests of the farming community.

4. The protective provisions of the Union's revised tariff legislation were immediately invoked in 1925 to safeguard the expansion which had occurred in the earlier boom years. Agricultural and pastoral production was further increased and diversified in the succeeding period

of high prices, and as soon as the ensuing depression once again threatened the maintenance of the agricultural activity which had been attained, Government in turn willingly resorted to increased duties on competing imports. As a result of these repeated doses, the level of protective duties on agricultural and pastoral products far exceeds the moderate duties applied in the interests of the Union's secondary industries. Moreover, as has been indicated,[1] in addition to imposing high duties, assistance was accorded from 1930 onwards by licensing and effectively restricting certain agricultural imports, subsidising exports and maintaining a high internal price whenever the product is not fully dependent upon the export market. The protection of agricultural and pastoral pursuits culminated in the provision of the Marketing Act, 1937, to the effect that imports of regulated farm products may be prohibited or regulated by proclamation. This far-reaching power is, of course, an indispensable adjunct to the contemplated system of planned agricultural marketing, but it may be inferred that quantitative restriction of imports will progressively replace tariff measures as an instrument of protection.

5. The high level of protection accorded to the Union's pastoral and agricultural industries has exercised a radical influence on the foreign trade policy of the South African Government. Thus the desire to protect sections of the farming community is primarily responsible for the termination of the Customs Union between South Africa and the two contiguous territories, Southern Rhodesia and Portuguese East Africa. Moreover, the imperial preferential régime was eagerly adopted and extended in 1932 in order to ensure differential returns to the agricultural export industries, and the uneconomic expansion of sugar production, vineyards and the dairy industry is directly attributable to the existence of sheltered Commonwealth outlets. Finally, it may be observed that the entire foreign trade policy of the Union has until recently wellnigh been dictated by

[1] *Cf.* Chapter III, *passim*.

the fact that the stimulation of agricultural production increased the importance of foreign outlets, so that the search for markets outside the Union has been chiefly motivated by the necessity of disposing of uneconomic surpluses. It is mentioned, however, that in the case of the Union-German Clearing Agreement, which denotes a fundamental departure from the former liberal foreign trade policy of the country, the future of the large and profitable wool export industry was at stake. Owing to the comprehensive nature of the subject, the foreign trade policy of the Union is, however, considered separately in Chapters *seven* and *eight*.

6. The export trade in agricultural products has been promoted in many other ways. For instance, the overseas disposal of farm products has been the chief reason for the establishment of a Trade Commissioner service in the principal foreign markets, and the incumbents are mainly engaged in inspecting consignments of perishable products, submitting market reports, and assisting in rationalising the distributive system. In order to enhance the quality standards of South African farm exports, compulsory grading has also been instituted with excellent results in regard to a large number of exports. Additional assistance to the agricultural export industries has taken the shape of concessional railway rates, while favourable shipping freights and a high standard of service have been secured by the payment of an ocean mail subsidy by placing negotiations with the shipping companies and the control of perishable exports in the hands of the Perishable Products Export Control Board, while the South African Shipping Board has been invested with the function of negotiating with the shipping lines in regard to non-perishable products. Finally, the elevator system of the South African Railways Administration is specifically designed to handle the maize export crop in an expeditious and economic manner, while the pre-cooling arrangements at the main ports are indispensable to the already substantial export trade in perishable commodities.

7. The production of farm products has been stimulated by different other means which have not been applied to manufacturing industries. Thus departmental research [2] and the educational work performed at the Agricultural Schools and by Extension Officers have assisted appreciably in improving the technical standards of agricultural production, while the pest and disease control, the determined anti-soil erosion campaign, as well as the rigorous veterinary import restrictions, have been of incalculable value to the farming community. The stimulation of agricultural production has also taken the form of land settlement on very favourable conditions as to the payment of interest and the repayment of capital, although irrigated holdings have generally been over-capitalised. Moreover, in order to counteract the adverse effect of the inconstant climatic conditions of the Union, the State has itself erected large irrigation works (sometimes without regard to the suitability of the soil), while it also grants financial assistance to farmers who desire to construct small dams. Then, again, European squatters are being rehabilitated as small-scale farmers by the subsidised construction of houses and the assisted purchase of livestock.

Furthermore, having regard to the heavy burden of mortgage indebtedness in periods of falling prices, some £8 million were made available by the State in 1933 in order to prevent foreclosures while the rate of farm mortgage interest was simultaneously reduced. Indeed, in consequence of the large volume of mortgage credit furnished by the Land and Agricultural Bank and the State Advances Office, a major portion of the bonded indebtedness of the farming community is placed with these governmental agencies.

8. The growth of farm output is reflected by the appended statistics of the annual net product of farming operations [3]:

[2] The Fuel Research Institute, financed by a levy on coal, performs chemical research into combustible fuel.

[3] Basis of calculation stated in Chapter XI, n. 18.

1917	£40,300,000
1923	£47,000,000
1936	£75,000,000

The increase is striking and it is self-evident from the preceding summary that it must largely be attributed to the numerous ways in which the industry has been encouraged by the State. However, particularly in so far as land settlement and direct financial help are concerned, assistance has been granted rather indiscriminately and without adequate regard to the economics of agricultural production. It is, therefore, characteristic of all branches of agriculture and animal husbandry in the Union—and this is confirmed by every agricultural economics bulletin relating to production costs published by the Department of Agriculture and Forestry—that the small size of an appreciable proportion of the European farms precludes economic production. There are financial difficulties which prevent an increase in farming units while collective farming is inconsistent with the social heritage of the people. Official policy is, therefore, directed towards the encouragement of mixed farming in order that the small farmers may, at least, attain a larger degree of self-sufficiency. The same practice is followed in connection with irrigated holdings, and development, therefore, appears to be in the direction of self-supplying peasant communities. Moreover, that policy is strongly favoured on the ground that it would check the townward migration of rural dwellers.

It should be remembered, however, that economies are secured when farming operations are on a larger scale, so that peasant farmers will not be able to compete, either in costs or in standards of living, with those Europeans who occupy medium- or large-sized holdings. Furthermore, the spirited efforts of the South African Native Trust to enlarge and improve the methods of farming practised in the Native Reserves, and the numerical preponderance of the Natives, warrant the conclusion that in the long run the Native peasants will

be the main suppliers of raw materials and of foodstuffs to the European townsmen. But even if that expectation were dismissed as visionary, it is clear that Native output will increase substantially, while concurrently the competitive position and standard of living of small-scale European farmers must deteriorate. Having regard to the peculiar social circumstances of the Union, it therefore appears to be a deserving long-term objective to enlarge the size of the numerous small European farms, a course which is consistent with the future which has been predicted for the Union as a producer of livestock, and one which would neutralise the eroding effects of cultivating marginal land intensively. The attendant problem of providing employment to the resulting influx of Europeans into the urban areas is considered in the concluding chapter. It may be mentioned, however, that in certain districts the process of sub-dividing arable land can still continue, while many individual farms located throughout the Union are too large; to some extent the displaced farmers may, therefore, be expected to migrate to those areas if the total demand for agricultural products increases concurrently.

II. Marketing of Farm Products

Certain Unique Characteristics

9. The marketing problem which confronts farmers is rather unique. The period of production is a lengthy one, involving a continuous expenditure, while no revenue is received until the matured crops are available for sale. It might be thought that, with a rationally conducted system of husbandry, the foreknowledge that expenditure mounts up without an inflow of revenue at an intermediate stage would quite naturally prompt the farmers to capitalise their enterprise at a level which takes complete account of the lag between the commencement of production and the eventual accrual of the sales-proceeds. Thus, in the case of livestock and fruit farming, sufficient capital will be provided at the outset

to finance the venture during the period of growth—extending from three to six years—and during the seasons of fattening or ripening, as the case may be. Similarly, adequate provision will be made for the shorter productive process of the animal hair and cereal industries, vegetable gardening, dairying and poultry farming (although the productive period is negligible when the dairy industry is based upon the " flying stock " system).

10. Assuming that new farmers display sufficient forethought in regard to their financial arrangements, there is no guarantee that their cautious plans will be realised. Farm production is completely dependent upon climatic conditions and insect pests, and it is a frequent occurrence that crops are damaged before they mature. It will be readily admitted that it is extremely difficult to make adequate financial provision against the fortuitous elements which are characteristic of agricultural and pastoral production. In the Union climatic conditions are exceptionally inconstant, while farmers generally lack the minimum capital resources which business prudence would dictate. It is, therefore, customary that the farming community relies on credit arrangements for a large portion of their requirements of fixed capital as well as for the expenditure which is inseparable from the productive process. The resulting indebtedness limits the freedom of action of the farmer and necessitates the immediate disposal of matured crops.

11. True enough, there are a variety of mitigating circumstances. If the farmers could be liberated from the uncertainty surrounding a maturing crop, recourse to credit, for the purpose of financing cultivation, would be an economical arrangement and consistent with the maintenance of financial stability. Crop insurance has not, however, been developed very extensively in the Union, owing to the extreme climatic vagaries. Moreover, since the extension of productive credits constitutes an unattractive commercial risk, it has not been undertaken by specialised institutions. The country trader traditionally performs that function and, although the

Carnegie Poor White Commission concluded that the "influence of Jews engaged in commerce was often pernicious," [4] it must be admitted that the storekeepers were often entitled to exact usurious interest rates, having regard to the uncertainty to which they were exposed and to the disorganised conditions of marketing, which magnified their risk. The commercial banks, it is true, have also been of assistance by providing overdraft facilities, but they have been inclined to do so on the security of land values. The State, too, has enabled the Land and Agricultural Bank to assist farmers by advancing part of their fixed capital requirements, but apart from the grant of marketing credits and financial support for the purpose of acquiring agricultural implements and livestock, no serious attempt has been made to relieve the farmers of the necessity of resorting to consumers' credits in order to maintain their families and labourers during the productive period and to meet other items of expenditure. It should be mentioned, however, that the pest control service of the Department of Agriculture has increased the stability of the productive side of farming, and in that way the extension of productive credits has been facilitated, albeit indirectly.

In recent years the farmers have to some extent endeavoured to lessen their dependence on traders' credits by the adoption of mixed farming. Diversification of activities imparts a degree of stability to farmers' incomes which is lacking when reliance is placed on a single crop. Moreover, the individual farmer is rendered increasingly self-supporting in regard to foodstuffs. The supplementary production of such products as milk, cream, eggs, poultry and veal (which, on account of the short productive period, do not involve a large accumulation of expenditure before the products are sold) also provides a regular cash income which further dispenses with the need to resort to consumers' credits.

12. Despite these tendencies, the small-scale farmers

[4] Professor Hutt discounts the statement on allied grounds. *The South African Journal of Economics*, September, 1933, p. 289.

are still obliged to replenish their capital or repay their debts as soon as their principal crop is available for sale. Accordingly the position arises that seasonal farm products are offered for sale during a brief period of the year while the consumers' demand is distributed fairly evenly.

It is frequently said that the principal difficulty in the marketing of farm products arises from the fact that the demand for agricultural products is inelastic. The elasticity of demand is, however, a variable entity. The current emphasis on national nutrition has, for instance, increased the demand for the main protective foods, despite a hardening of prices, while it also appears that, in times of economic recovery, the demand for agricultural and animal products—whether protective or energy-giving foodstuffs—tends to expand at a surprising rate. It is, therefore, very inadvisable, and probably inexact, to ascribe the extreme price variations to which farm products are subject to a characteristically inelastic demand, for it would appear from an observance of recent cyclical fluctuations that over long periods the opposite is more generally the case as the demand is very sensitive to changes in income. Admittedly, however, the elasticity of demand is low in the short period.

The causal relationship, therefore, appears to be that seasonal production is bound to be accompanied by a brief selling period in the absence of special financial arrangements to enable producers to liquidate arrear debts and provide for storage. The concentration of offerings at the close of the season is in itself sufficient to depress the level of prices, while an allowance for storage costs and deterioration risks necessarily leads to a seasonal rise in price. But the initial price decline is accentuated if the production exceeds what is considered to be the normal demand, partly on account of the excess supply and partly because the demand for the staple farm products is characterised by a short-period inelasticity. The reverse process occurs if the supply falls short of the normal consumption.

The position of perishables is only different in degree from that of the more durable farm products. As the volume of supplies is entirely seasonal, and since refrigeration is expensive, systematic distribution between the available outlets, rather than storage, is the proper method of ensuring a degree of price stability for perishable products. It is, of course, endeavoured to equalise the output of milk and vegetables as between the flush and off seasons. Insofar as the seasonal peak is eliminated by means of irrigation and by regulating the lactation period of cows, price stability is also promoted, although level producers must necessarily obtain a premium for their extra expenditure.

13. While it has been found that individual producers of durable farm products are generally unable to defer their sales so as to produce a temporal balance between supply and demand, the same does not apply to farmers as a group. On the security of their joint output, adequate advances may be obtained to place the farmers in funds. In that way regulated selling is rendered feasible. Collective action also facilitates the acquisition of storage accommodation, while grading and packing are usually improved. Furthermore, if orders are filled from stocks held in the vicinity, cross-freights are saved. Thus the saving in cross-haulage on grain traffic since the inception of the elevator system to the end of the 1931–32 season amounted to 15·5 million ton-miles.[5] Furthermore, bulk transport and handling are productive of extensive economies. The position of perishables is very similar. In the absence of a jointly planned distributive system, cross-freights are bound to be considerable—distant producers catering for the natural market of producers located in the vicinity while they in turn intrude into the proximate market of the first group. Furthermore, a centrally organised plan of distribution is indispensable if a proper spatial adaptation of supplies to localised market demands is to be achieved—

[5] *Report of the Railways and Harbours Affairs Commission*, U.G. 36, 1934, para. 564 (b), (i).

irrespective of whether the product is sold locally or exported.

The formulation of joint marketing schemes would not, however, have been acceptable to producers had it not been for the two allied circumstances that many agricultural products can be readily classified and sold by grade, and that the family basis of farming leads to a multiplicity of small producers who cannot influence the competitive price level by a unilateral variation of output or regulation of sales. The demand for the joint output of all farmers is not, however, similarly elastic, so that their collective output exercises its full influence on the price level; indeed, an excessive influence on account of the short-period inelasticity of total demand. These factors are of the utmost practical significance. While the individual farmer has to accept market prices (as determined by the totality of sales and the whole demand), a group of farmers, controlling a substantial portion of the crop, is able to influence the level of prices to a considerable extent. Their mutual efforts to regulate the market may be, and in practice are generally, frustrated by the selfish action of non-participating producers. In an individualistic society there are bound to be such outsiders so that, in the absence of coercion, it seldom proves possible to secure a proper spatial or temporal balance between the supply of and the demand for farm products.

Voluntary or compulsory joint marketing schemes are facilitated if the product in question is amenable to absolute grading. In addition to their advantageous effect on quality, pooling arrangements have been assisted very appreciably by the grading and packing regulations of the Department of Agriculture and Forestry. Farmers are thereby assured of differential returns for the portion of their crops which qualify for inclusion in the best grades. Insofar as grading is merely a guarantee of quality to the purchaser—as is the case with the Union's export regulations applicable to fresh fruit, and with the national mark scheme currently

applied on a voluntary basis, but under official auspices on the Newtown produce and livestock markets—the same result is not achieved, although it may pave the way for the attainment of that objective. If absolute standardisation is not feasible, pooling is precluded and the output of each producer must necessarily retain its identity. Most perishables fall within this group, and important producers are able to establish a consumers' goodwill by means of distinctive and well-advertised trade marks. As a result, organised marketing schemes for such products are generally lacking in cohesion, while an integrated distributive system is rendered cumbersome by the complicated accounting and elaborate organisation entailed by the differential prices realised by branded foodstuffs. Despite these defects, it is found in practice [6] that the attendant savings and the stability which is gained, justify a centralised marketing system, even for those farm products in regard to which the larger producers do not experience a perfectly elastic demand. In reference to joint marketing schemes for products of the foregoing character, compulsory participation has been found imperative in order to control the subversive practices of would-be undercutters.

The Co-operative Movement

14. Having regard to the preceding argument in favour of collective marketing, it is necessary to turn to the agricultural co-operative movement in the Union, as it aims at the same object. The wholesale trade in South African farm products is undertaken both by private firms and producers' co-operative associations. The relative strength of the alternative avenues of sale varies from product to product. Owing to the application of compulsory co-operation to the tobacco industry, practically the entire tobacco crop is sold direct to the manufacturers by co-operative organisations. Approximately one-half of the annual wheat crop is handled by

[6] The British Liquid Milk Marketing Scheme may be quoted as an example of an involved organisation.

co-operatives. In the maize industry the co-operative movement has had a chequered career. In 1931–32 54% of the European production in the Northern Provinces was marketed through a co-operative pool; in 1934–35 the percentage had fallen to 9·6%,[7] but the position of the societies has since improved. Then again, approximately 75% of the total exports of citrus fruit are exported by the Citrus Exchange.[8] The foregoing examples are quoted as instances in which the co-operative marketing system was adopted with success, and must be interpreted as such. Unfortunately "it is not possible to determine the relationship which exists between the aggregate turnover of co-operative agricultural associations and the value of all the produce sold by farmers in the country."[9] Suffice it to say that co-operative marketing of any farm product is not predominant in all directions, although the aggregate turnover of £9·9 million in agricultural produce during 1934–35 is ample testimony that co-operative selling organisations are of no mean importance.[10] The bulk of the turnover results from wholesale transactions as the movement has not made progress in the Union's retail trade.

15. In remarking upon the fact that agricultural co-operation has not swamped the wholesale trade in farm products, the Co-operative Commission of 1934 made the disquieting indictment[11] that

> "after due analysis of the causes of past dissolutions of co-operative organisations, it cannot summarily be declared that agricultural co-operation has been a failure. Such failures as occurred were mostly ordinary business failures due largely to bad management and to circumstances beyond the control of man. . . . Disloyalty of members, inadequate working capital subscribed by members, and the engagement of cheap and inexperienced staff have been, to a large extent, the direct and indirect result of bad or inefficient management. The efforts of the organised section have often

[7] *Bulletin* 176 of the Division of Economics and Markets, p. 21.

[8] *Bulletin* 176, p. 27.

[9] 1936 *Annual Report of the Secretary for Agriculture and Forestry*, p. 613.

[10] *Bulletin* No. 176, *op. cit.*, p. 19.

[11] U.G. 16, 1934, para. 1110 (2) and (3). The sequence has been altered.

been adversely affected by those holding aloof from co-operative activity."

It would appear, therefore, that the losses sustained by members on account of unbusinesslike management (and the losses which are avoided by non-participating farmers) have been the most potent cause why co-operative marketing of farm products has enjoyed no more than a very relative success in the Union. At the same time, advocates of the co-operative ideal must find it encouraging that, despite numerous setbacks, the movement has persisted.

16. Several considerations suggest that in future years co-operative marketing agencies will become of paramount importance. Past experience must inevitably lessen the frequency of failures. Moreover, the preference for the limited liability form of organisation upon which the Co-operative Commission of 1934 remarked,[12] has persisted, so that between 1933 and 1937 the membership of co-operative organisations with limited liability increased from 65%[13] to 80%[14] of the total. The natural trend of development in the direction of a limitation of the liability of members and the improved loan facilities extended to co-operative companies may well prove a decisive stimulant.

A further factor of importance is that, in the absence of a co-ordinating and directive body, the co-operative organisations were inclined to experiment with monopolistic policies, which were not consistent with their status as trading and service-rendering associations, nor was it within their power to maintain them as they were unable to prevent over-production and a deterioration of quality in the controlled branches of agriculture. This usurpation of monopolistic functions by producers' representatives, who are, generally speaking, constitutionally unfit to exercise such powers in the best interests of both producer and consumer, will progres-

[12] *Op. cit.*, para. 27.
[13] *Ibid.*
[14] Supplied by the Department of Agriculture and Forestry.

sively fall into abeyance. Matters of policy will tend to be determined by representative regulatory boards constituted in accordance with marketing schemes initiated in pursuance of the Marketing Act, 1937. Insofar as the regulatory Boards control channels of sale by appointing agents, organise pools or undertake buying, selling and manufacturing, there is every likelihood that co-operative marketing organisations will be appointed as agents by the respective boards. In that way the position of the co-operatives as business organisations will be strengthened immeasurably.

The Chaotic Productive and Distributive System

17. It is a characteristic of a number of farm products that their distribution is effected in a disorderly and chaotic manner, while, in regard to other products, long-term policies are either not clearly defined or are ill-balanced while the pecuniary incentive to rectify matters is inadequate. It is proposed to refer in brief to the problems of several branches of agriculture.

The production of wheat has grown enormously so that a permanent surplus is in sight on account of improved yields, a favourable disparity between wheat prices and the returns for alternative farm crops, and because the fixation of high minimum landed values in respect of imported wheat and flour have brought many farmers under the impression that they can get an assured price irrespective of the total production.[15] As the local and seed requirements equalled 5·5 million bags in 1935–36, while the crop exceeded 6 million bags, a collapse of prices was only prevented by the payment of compensation by the Wheat Industry Control Board for storage costs and losses due to depreciated values consequent on the carry-over of wheat by producers and co-operatives in compliance with prescribed stipula-

[15] *Cf. Department of Agriculture and Forestry Science Bulletin* No. 145, p. 27 *et seq.*

tions.[16] While the compensation system has led to the disposal of the Union's wheat crop in a more orderly flow, the tendency towards over-production, the disparate price level resulting in the cultivation of increasingly sub-marginal land, the high minimum duty-paid values whereby consumers are needlessly mulcted when the local crop is small as the import trade is in any case regulated quantitatively, and the poor baking quality of the bulk of locally grown wheat,[17] have still to be solved. Moreover, the extension of irrigable areas as a result of large water conservation schemes, may lead to a further expansion of the wheat industry.

In the case of maize, production is highly variable, but it is a staple crop and the output generally exceeds local requirements so that the need arises to export the surplus at the low world prices which have ruled for a number of years. This uneconomic export trade is assisted to some extent by the preferential duty which has been granted by Canada. For the rest, producers are compensated for the export loss at the expense of domestic consumers.[18] Arrangements have, however, been made for the supply of limited quantities of quota-free maize to stock-feeders at export parity prices while manufacturers enjoy the same concession. Although the differential price and quota system penalises over-pro-

[16] *Cf.* section 19 (1) of Act No. 58 of 1935.

[17] *Cf. Board of Trade and Industries Report* No. 217.

[18] The original procedure was simply to declare export quotas and expedite exportation, relying on the induced local scarcity to push up inland prices. The export trade is specialised and the sale of quotas had, therefore, to be permitted. As excessive speculation ensued, the Mealie Industry Control Board permitted producers and traders during the 1937 season to shift their export obligations by purchasing quota certificates, acquired by it from exporters, from the Board at a price guaranteed by Government. For illustrative purposes it is mentioned that the exportable quota equalled $66\frac{2}{3}\%$ and the guaranteed quota price amounted to 4*s*. 6*d*. In August, 1937, overseas parity prices stood at 6*s*. In that month, then, a trader purchasing three bags of mealies had to export two bags or purchase a quota certificate at 4*s*. 6*d*. If he followed the latter course his outlay would be (6 × 3*s*.) + 4*s*. 6*d*., or 22*s*. 6*d*.; *i.e.*, 7*s*. 6*d*. per bag, which price he would pay to the producer, while recouping himself from consumers. As two bags of every three had to be exported by someone netting export parity prices, *i.e.*, 12*s*., it follows that the remaining bag would be sold in the Union at (22*s*. 6*d*. − 12*s*.), *i.e.*, 10*s*. 6*d*. *plus* commission.

duction, it has not reduced the reliance on the maize crop in the producing areas, against which the Secretary for Agriculture and Forestry inveighs without tangible effect [19]:

> "I have for many years been advocating the establishment of an economic equilibrium between animal and field husbandry. . . . It is my earnest hope that the good maize prices obtaining at present will not once again lead to an over-concentration on maize for sale in the grain form, with the result that stock farming, which in the past few years has justly made progress in the maize area, will be left in the lurch."

As is known, in preference to using maize as green fodder for fattening livestock, in the next year a record crop was allowed to ripen.

Any long-term marketing scheme which may be promulgated in respect of this industry, will perforce have to give close attention to the basic nature of mealies and mealie products in the Union's economy. Thus full account must be taken of the fact that a substantial excess of local maize prices over-ruling export parity values, places a heavy burden on the poorer section of the European population. A disparate price level similarly affects the Natives in the Reserves and urban centres, subsisting largely on mealie products as the cheapest available food and whose under-nourishment means the deterioration of the labour supply on which mining and industry are so vitally dependent. Moreover, a large price discrepancy is an inducement to extend maize production in unsuited areas, particularly if prices are graduated in relation to individual sales in order to assist small maize farmers, regardless of whether they are situated in producing or consuming areas, thereby diminishing the demand on which farmers in the maize belt rely, while also perpetuating the one-crop farming system in the maize areas proper, to the detriment, in both cases, of the livestock industry. The averredly temporary 1938 maize control scheme, ignored

[19] 1936 *Annual Report*, p. 523.

these complicated aspects, serving merely to regulate exportation during the short crop year, and to raise internal prices over export parity by the ingenious method of paying export compensation on the small exportable surplus from the proceeds of a levy imposed on all mealies sold.

In reference to tobacco, the production of Virginia tobacco has expanded rapidly, resulting in a surplus of dark tobacco, while there is a deficiency of flue-cured yellow cigarette tobacco. Accordingly, despite the import prohibition on Southern Rhodesian flue-cured Virginia leaf[20]—which prohibition contributed very considerably to the termination of the pre-existing Customs Union—increasing quantities are imported from that country. Thus, compared with the maximum of 2 million lb. admitted during the years ending June 30th, 1936 and 1937, importation of over 3 million lb. was authorised for the next twelve-monthly period. Neither the import prohibition, enforced grading or compulsory co-operation have, therefore, succeeded in raising sufficiently the standard of the Union's tobaccos. An expansion of the output of flue-cured Virginia leaf is of exceptional importance as the public demand has veered from pipe and roll tobacco to yellow cigarette tobacco. On account of this maladjustment in the qualitative complexion of output, the paradoxical position arises that flue-cured leaf is imported, and by means of an all-round levy,[21] the exportation of dark air-cured leaf is subsidised.

The demand for citrus and deciduous fruit has expanded considerably owing to the change in diet which accompanied the progress in nutritional research and the higher contemporary standards of living. Production has made a comparable advance and the need for a close adaptation of supplies to the urban demand has accordingly become pressing. High refrigerated transport costs and the perishable nature of the fruit clearly

[20] *Vide* Act No. 14 of 1935.
[21] Imposed in terms of Act No. 17 of 1935.

determine that exports should be supplied regularly to the main foreign outlets in quantities which are consistent with the demand emanating from the different centres. Insufficient progress has been made in that direction. The Deciduous Exchange is too weak to systematise the trade, while the Citrus Exchange is essentially a selling organisation without power of routing fruit supplies containing the desired counts to different markets. Moreover, the fruit industry has developed on the basis of preferential treatment in Great Britain. Exporters are, therefore, disinclined to accept lower initial returns in other countries (although experience has shown that a forward policy leads to a profitable trade as happened in the case of Scandinavia), and, in the absence of a centralised distributive organisation which compensates for the lower prices on a collective basis, sales outside Great Britain are hampered by the adoption of a fixed-price basis in preference to selling on consignment. Thus the industry is confronted with keener competition on the saturated British market and lacks supplementary outlets elsewhere (with the exception of Scandinavia and West Africa). A rational distributive system would evidently be of substantial assistance, as the seasonal advantage which the Union possesses as an exporter of fresh fruit in relation to the large markets in the Northern Hemisphere, is a lasting factor.

Discussion of Dairy Industry

The dairy industry is faced with many difficulties which render the exportation of butter, cheese and other dairy products uneconomic. Thus production costs are high owing to the low average yield per milch cow, while manufacturing costs are excessive as a result of the existence of redundant decentralised creameries so that farm buttermaking has failed to decline. Moreover, the steady expansion of dairying in the semi-arid regions of the West has enhanced seasonality; accordingly, the export trade is very sporadic and in reality

the butter export surplus consists largely of supplies from Bechuanaland and South-West Africa. Despite the rapid growth of *per capita* consumption within the Union in recent years due to improved nutritional knowledge and prosperous conditions, though partly as a result of the huge dimensions of the State-Aided Milk and Butter Scheme (involving the subsidised local consumption of 2·5–3 million lb. of butter, 1·5 million lb. of cheese and 1·5–2 million gallons of milk per annum), the export surplus of butter and cheese is nevertheless a serious problem in the industry. Removal of the various structural difficulties which preclude economic production is, therefore, a matter of some urgency as the industry is liable to expand continuously. At the same time the distributive system should be rationalised. Unnecessary duplication in the liquid milk trade raises prices and limits consumption, and at the same time, the high prices aggravate the surplus problem created by the widening of the supply area as a result of motor transportation and pasteurisation. In that way the former monopoly held by near-in producers has also been destroyed, but as distributors are often bound to their old suppliers by collective agreement, new producers who fail to secure wholesale contracts enter the field as producer-distributors. Further, evasion of the butter levy by farm butter-makers, who are not subject to export quotas and therefore also avoid the export loss, has resulted in an agitation against farm butter-making. While further centralised manufacture would enhance the efficiency of the industry, the bulk of farm butter is made for own consumption and should not be penalised. Finally, the creameries have stimulated the production of cream in distant regions by averaging transport costs, which, in addition to the minimum railway charge on small consignments, leads to cross-hauling as it is immaterial to the supplier whether he sells to a proximate or remote factory. Cream is thus produced in unsuited areas but also at unsuited times as the uniform variations in winter prices prompt all sup-

pliers to lessen the seasonality of output although it is evident that production in some regions should be more seasonal than in others.

The defects which characterise the Union's livestock industry are amenable to partial solution by organising distribution so as to impel a fall in the prices paid for compounds and a rise in prices for primes. "The small price margin between compound and prime beef, particularly prime beef on carcases of young and well finished animals, acts as a retarding influence on the production of a greater number of improved and well finished animals. There must be a sound beef market before a sound beef export trade can be developed."[22] However, while the livestock industry may be the obvious branch of farming which warrants large-scale development in a country like the Union, with its recurring droughts and relatively poor soil, it can only be established on a sound footing if a suitable agrarian policy is progressively evolved, and if the ranching areas of the West are not so largely devoted to the production of cream as to jeopardise the growth of the young animals during their critical early age.

The supply of the produce markets in the Union is the acme of disorganised distribution. The South African producers have a natural monopoly in the supply of many kinds of produce (particularly vegetables and fruit). Price bids are made orally in the auction rooms where there are many competing distributors. It might be considered that these circumstances would produce the best results of the normal interplay of supply and demand. In practice business morality is none too estimable in the produce markets; furthermore, prior to the inauguration of the National Mark

[22] *Report of Departmental Committee on the Problem of Meat Export from the Union of South Africa*, 1936, p. 12. It is of interest to note that in 1926 the Board of Trade and Industries recommended that a systematic attempt be made to build up an export trade to Europe "on the basis of the cattle that thrive in South Africa (and the trade with the English markets be left to those countries which have specialised in meeting that demand for meat of first-grade quality)." *Report* No. 53 of 1925, Recommendation XVI.

scheme at Newtown, fruit, vegetables, meat and eggs were ungraded and deceptive packing was rife—as it still is in other cities; finally, there is no approach to a precise adjustment of supply and demand. In the latter connection casual scrutiny of the produce market reports[23] for the period September 1st to 9th, 1937, revealed several instances of maladjustment. Thus it was found that supplies are short during part of the week and excessive during the remainder; or, the one market experiences a glut while a shortage exists in other centres; or again, Transvaal and Orange Free State produce compete in Johannesburg and Cape Town although it is self-evident that supplies should be adjusted by the Orange Free State concentrating on the Cape Town market. Finally, with the exception of the Newtown livestock market (where, incidentally, supplies are regulated by Control Board permits), the markets were generally glutted on the 7th and 8th owing to the Jewish holidays. Since these holidays recur annually (as also the accompanying deficiency in demand), it is not unreasonable to expect that competitive forces should by now have taken account of the fact. Moreover, since the market reports are published in the press and are broadcast twice daily, individual producers should be able to effect the necessary adjustments—if it can seriously be expected that farmers, acting independently of one another though linked by market agents, will maintain a position of market equilibrium, not by accident, but automatically.

The Marketing Act, 1937

18. Departmental admonition, co-operative organisations, private distributors and the statutory boards of control set up (with limited powers and functions) for the meat and livestock,[24] dairy produce,[25] tobacco,[26]

[23] Issued by the Division of Economics and Markets (Bureau of Domestic Markets).

[24] Act No. 48 of 1934.

[25] Act No. 35 of 1930 as amended.

[26] Act No. 17 of 1935.

wheat,[27] and maize[28] industries, did not provide a permanent solution of the chaotic distributive system and attendant problems. Moreover, it has long been self-evident on general grounds that unity of action and collective planning are essential for the formulation and application of a purposive course of development. Past experience in the Union and elsewhere,[29] has, however, made it clear that co-ordinated action by producers and other interested elements, is unlikely to ensue or to persist in default of suitable legislative machinery and coercive powers.

The Marketing Act, No. 26 of 1937, was, therefore, passed as an enabling measure. The essential feature of the Act is that in respect of any farm product interested producers, co-operatives, boards of control, the Minister or the National Marketing Council may frame a marketing scheme providing for the constitution of a regulatory board with powers to impose a levy and devote the funds to any object which is considered to be to the advantage of the producers. The scheme may accord agency powers to the regulatory board, the right to conduct a pool, and the power to regulate the inter-market distribution (internal and external) of the product in question on a quantitative basis, and to equalise export prices in respect of consignments diverted to stated markets at the instance of the board. The Scheme may relate to specified areas or may embrace the entire Union, while local committees may be constituted for administering it on a regional basis. In addition, the regulatory board may be granted monopolistic powers involving the transfer of ownership of the regulated product, price fixation, sale through one channel in quantities or qualities determined by the board, as well as processing and the use of loaned funds. Further, provision may be made for registration with the board of producers and

[27] Act No. 58 of 1935.

[28] Act No. 39 of 1935, as amended.

[29] *Cf. Report* dd. November, 1936, by the Secretary for Agriculture and Forestry, on planned production and marketing of agricultural products in Europe.

distributors, chiefly for control purposes but also in order to prevent duplication in the distributive trade or the emergence of new producers (of, say, liquid whole milk) if existing supplies are adequate. Although applicants may appeal to the Minister in the event of refusal to register them, it is evident that this power, exercised by vested interests who are naturally averse from the entry of new competitors, makes a serious inroad on the principle of unrestricted entry into economic pursuits.

The marketing schemes and their administration or amendment are subject to investigation and report by the National Marketing Council, which is essentially a non-partisan investigatory body acting in an advisory capacity to the Minister of Agriculture and Forestry. The Minister may, after investigation and amendment, proclaim a marketing scheme for the area or class of producers to which it relates. The European adults who have been engaged in the branch of farming in question for a minimum of three preceding years, must, however, adopt a proposed scheme by a three-fifths majority (representing one-half of the output of the producers entitled to vote),[30] prior to its enforcement, except if it originates from an existing Control Board. A marketing fund is also established in terms of the Act, and, subject to recommendation by the National Marketing Council, loans may be granted to any regulatory board. Finally, the principle is established of enforcing import and export prohibitions by proclamation.

While the National Marketing Council will itself be intimately concerned with the maintenance of a proper balance between the interests of producers and consumers of farm products, and between the prices of the different products, additional safeguard is afforded by the Act through the establishment of separate Con-

[30] The Minister may also subject non-monopolistic marketing schemes to the vote of enfranchised producers. In that case, an ordinary majority is prescribed. Voting *may* be required by the Minister on monopolistic schemes promoted by the five existing control boards in respect of their industries.

sumers' and Producers' Advisory Committees which will function as consultative bodies in matters affecting the interests of consumers and producers, respectively.

19. While the operative and proposed schemes under the Marketing Act have provoked extensive interest the contemplated regulatory system is still in an embryonic stage and the results of the general régime of planned agriculture cannot as yet be recorded. Before proceeding to an account of the sugar industry [31] (where joint negotiations have been practised for over ten years, and which may, therefore, serve to portray the difficulties which comparable marketing schemes will encounter), it is desired to hazard at the *modus operandi* of the contemplated schemes.

It would seem that the creation of an orderly and rational distributive system will be a first essential as a prime object of the Marketing Act is to eliminate competitive waste and disorder, though not necessarily to discard competition and competitive agencies. But in regard to the allied agricultural problems, differential price fixation will probably prove to be the pivot of the system. Even agriculturalists are sensitive to price relationships and the power to differentiate producers' prices will, therefore, be an invaluable instrument of checking expansion in uneconomic areas, of expanding the total and seasonal production in natural and promising branches of farming, of improving quality, of altering the trend of development in other respects and of maintaining or restoring a proper balance between the several branches of farming; further, by means of prices, graduated in conformity with varying consumers' preferences, consumption can be maximised. In the latter connection it is, however, regrettable that in the case of substitutable products the device of price discrimination cannot be employed with the same

[31] Since 1935, the disposal of groundnuts not required by the edible market, has also been effected by joint agreement between groundnut-growers and oil-expressers. The agreements are concluded under official auspices and with the exercise of a measure of coercion.

administrative facility with which it is practised in, for example, the book trade.

20. The monopolistic and price-fixing provisions of the permissive Act have been criticised with vehemence as if they were sacrilegious innovations. In reality the policy has long been followed by allowing combinations ample scope.[32] The Marketing Act is in this respect, therefore, fully consistent with the operative economic philosophy, with the difference that in this case provision is made for systematic (and continuous) governmental supervision. Furthermore, the Act has been criticised on the ground that it dispenses with the competitive mechanism. It is true that if price-fixation is undertaken, the spontaneous decisions arrived at on the market will be substituted by collective determinations, but it is not expected that the competitive pricing process will be totally or effectively eliminated. Thus, as long as producers compete freely for the factors of production and consumers' choice is retained, prices cannot be fixed independently of supply and demand, although the monopolistic boards are better able to resist these determining forces. Whether that will occur or not and whether prices will be differentiated so as to promote economic production and maximise consumptive satisfaction is a matter of practice—not of theory. But if the former does not occur, price-fixation will be nothing more than price-adaptation, so that the only known rational calculus will be retained while the competitive (private or co-operative) distributive agencies will also continue to function. Economic theory, in its present stage of development, leads one to hope that such will be the case.

[32] See Chapter I.

CHAPTER VI

AGRICULTURAL DEVELOPMENT AND MARKETING (*Continued*)

South African Sugar Economics

Main Features of the Industry

1. The economic aspects of the Natal sugar industry have been investigated on more than one occasion—impartially, albeit officially.[1] Consequently more authoritative data are available for consideration and analysis than in many other South African industries. This review will, however, be confined to elucidating, in comparatively brief compass,[2] the current features of our sugar economics, reinforced only by such an array of past facts as is thought requisite to the achievement of that object. Little direct attention will be given to those features of the industry which normally excite attention, as they are largely accounted for by a confused appreciation of the industry's affairs, and will perhaps vanish like nebulæ without specific denial. Thus the survey will not be concerned with the popular consternation at the use of pythons as rodent exterminators in the cane fields, or with the mass indignity fanned by all the invective which the Labour Party, the Women's National Council and others can command, at the so-called authoritarian

[1] *Report on Sugar by the Advisory Committee to the Minister of Finance on the Control of Food Supplies* (1917); Baxter Sugar Inquiry Commission (1922); *Board of Trade and Industries Reports* Nos. 66 of 1926, 119 of 1931 and 194 of 1935. The following Board *Reports* relate to specialised aspects of the industry: Nos. 56 of 1925, 57 of 1925, 71 of 1927, 98 of 1929, 101 of 1929, 103 of 1929, 106 of 1930 and 224 of 1937.

[2] To that end appropriate abbreviations will be introduced in the course of writing.

control[3] which is reputed to preserve high prices in order to maintain the huge personal fortunes and the Indian employment customarily associated with the sugar industry; or, again, with the thought, ever-present in the minds of the saner, but more cynical, elements of the South African nation, that it truly is a characteristic expression of a traditionally perverse political intuition of Natalians to prosecute an isolationist ideal, although the prosperity of this branch of their activity is also derived from the other Provinces. But, while an objective account is aimed at, it is, of course, quite possible that it will accidentally provide a reliable basis for discussion—if not in the popular Press and propagandist circles then, at least, in learned literature.

2. Sugar cane is grown for sugar manufacture in the coastal belt of Natal and Zululand. Three areas are ordinarily distinguished, *viz.*, the South Coast (situated south-west of Durban), the North Coast (located on the north-east of Durban to the Tugela River) and Zululand (to the north-east of the Tugela River). While Zululand's share of the total crop of cane remained stable at 25% in the decade ending 1935–36, the percentage attributable to the South Coast declined from 33% to 21%, while that of the North Coast rose from 41% to 54%, due to a considerable expansion in the Lower Tugela district. However, the total tonnage of cane crushed increased from 2·1 to 3·9 millions.[4]

3. The sugar crop is approximately a biennial one, as the cane takes up to twenty-two months to mature. Originally it was possible to cut the cane after eighteen months in Zululand, owing to the higher rainfall and greater fertility of the virgin soil. Less productive lands have since been brought into cultivation in the northern region, and after years of planting the richer soils have declined in fertility, so that the higher yield per

[3] *Vide* Professor C. S. Richards, *South African Journal of Economics*, September, 1936, p. 391.

[4] Data from *Official Year Book* and *Monthly Bulletin of Statistics*. Indian and Native production, equalling 7 to 9% of the total, is included. "Ton" is used to signify a short ton.

acre as well as the better sugar-content per ton of cane has largely disappeared. After cutting the plant cane, shoots (or ratoons) spring up, enabling four or more crops to be reaped, namely, the first, second, third and subsequent ratoons. It is evident that the average age of cane ploughed out is indicative of the speed of maturation, during which period cane can be cut, and it is therefore of interest that the average age has been declining annually, from 8·32 years in 1923 to 7·31 in 1936.[5] Although the Union is still at a disadvantage compared with other cane-sugar producing countries where cutting can be undertaken annually or after intervals of less than eighteen months, it would appear from the progressive decline of the maturation period that improved cultivation, and, above all, the introduction of quicker-ripening varieties, are lessening the discrepancy.

Cutting takes place during the months of May to December. The deliveries to the mills during these months are not uniform, as the cutting must be regulated so as to obtain the highest sucrose content. During the ripening process dry weather improves the sugar content while a humid climate leads to growth with adverse effects on the sugar content. It is apparent that irregular deliveries are detrimental to the efficiency of the mills, which work day and night in the season. Regular advices, as well as accurate estimates of deliveries, are essential in order to correlate milling and the cutting of cane at a time when the sugar content is optimal.[6]

4. The cane grown in the sugar area is predominantly the Uba variety—possessing an uncertain origin that has given a touch of romance to this hardy cane. Uba has good ratooning qualities, and as it was drought and

[5] *Vide Official Year Book* and *Monthly Bulletin of Statistics*.

[6] *Cf.* p. 50 of the *Report* of the Chemical Technologist annexed to *Report* No. 66 of 1926 of the Board of Trade and Industries. Prior to the institution of the sucrose basis of payment, the optimum sugar content of the cane was of little pecuniary interest to planters. Since 1926, however, planters have urged that the milling season be shortened as the sucrose content is lowest at the beginning and end of each season.

disease resistant it supplanted soft canes. But Uba cane is defective in other respects. It has a high fibrous content which renders crushing difficult and expensive, while the extraction of the sucrose is incomplete. Moreover, the juice is impure while the sucrose content is low. Its yield per acre is also poor, and an additional defect is that the trash (dead leaves) adhere very firmly to the cane, while the soft varieties shed the trash automatically. Due to the expense of hand-removal of the dead leaves, the practice developed of burning the standing cane before harvesting. Owing to the deleterious effect of the destruction of the dead leaves on the fertility of the soil,[7] the Board of Trade and Industries recommended in 1926 that growers who adopt burning in preference to hand-trashing should be penalised by a lower cane-price.[8] Nothing has been done in that regard, although the industry piously resolved in 1926 that burning should be discouraged. The destructive process in question is likely to be continued until soft canes have ousted the Uba variety.

Despite these disadvantageous characteristics of Uba, no concerted effort was made by the industry to substitute it by more economical varieties until it was observed in 1924 that the young Uba plants were subject to a streak-disease. In mitigation of the apparent apathy of the sugar planters, it must be observed that the soft varieties which had been introduced were even more subject to the ravages of mosaic-disease. Furthermore, individual planters are precluded from originating their own varieties because the climatic conditions prevent the formation of fertile seeds. Seed cane, therefore, has to be selected in other countries and tested under local conditions. The industry thereupon decided in 1924 to establish an experimental station to deal with disease problems.

Action was delayed until the industry—and the

[7] These results are only partially counteracted by using the caked residue obtained in the course of purifying the juice in the mills as fertiliser.

[8] *Report* No. 66 of 1926, para. 9.

Government—were chided in regard to the matter by the Board of Trade and Industries.[9] In 1926 measures were eventually taken to eradicate, before 1932, all existing canes which were susceptible to mosaic. The Mount Edgecombe Experimental Station was established simultaneously, and it is symptomatic of the live interest which the industry has exhibited in its problems since the inauguration of a mild degree of governmental supervision in 1926 that the central laboratory is financed by the industry and not by the State. During the quarantine period canes were introduced from Java, Cuba, India and America in order to obtain suitable soft mosaic-resistant canes with an improved sugar content, for eventual distribution of selected varieties to planters. In consequence, Uba cane is gradually being eliminated, and in the 1936 season 400,000 tons of soft cane were produced, compared with 3,100,000 tons of Uba cane. Although the yield per acre varies according to district, owing to natural agricultural conditions, it should be noted that a marked shift must occur in the geographical distribution of the cane crop, owing to the high yield in Zululand of the soft canes which are supplanting Uba. Thus in 1935–36 the yield per acre of Uba and the other varieties averaged 19·8 and 24·9 tons respectively in Natal, compared with 16 and 28·8 tons in Zululand.

The sudden interest in the introduction of soft canes (giving a higher yield per acre, possessing a higher sugar content, yielding a purer juice and having a lower fibre percentage, which makes crushing cheaper and gives a higher extraction ratio) is without doubt largely due to the fact that the rapid spread of virus diseases had brought the industry within virtual sight of utter ruin. But, in part at least, the change must be ascribed to the institution, in 1926, of a cane price which depended upon the sucrose content and effectively penalised planters producing low-quality cane.

" At present the same price is generally paid for dirty, inferior cane and for cane with the higher commercial value. The weight

[9] *Ibid.*, para. 60 (1).

basis of payment nowise encourages planters to cultivate a good quality sugar cane, as the sucrose content is of no interest to them in so far as payment is concerned. . . . The existing practice is advantageous to planters in river valleys or flat lands, but is disadvantageous for the majority of planters who produce sugar cane of high sucrose content on mountainous and non-alluvial estates."[10]

Furthermore, the cultivation of soft canes was encouraged by the payment of an extra 1*s.* per ton, commencing in 1927.

5. The cultivation of sugar cane is conducted by independent European planters, Indians and Natives, as well as by miller-planters. Exclusive of the 1,500 Indians and Natives, there were 649 miller-*cum*-planters and planters in 1936.[11] The non-Europeans produced only 276,000 tons in 1933–34, while the planters and miller-planters accounted for 1,998,000 and 1,391,000 tons respectively.[12] However, relative to the position obtaining in 1926–27, the non-Europeans had increased their output by 79%, the miller-planters had advanced 110%, while the independent planters had produced only 47% more. It is apparent that the miller-*cum*-planter estates have assumed a preponderant importance and the planters have retrogressed so that, in 1932–33, 148 European planters produced less than 1,000 tons of cane per year (sometimes as a sideline) ; while their costs were inflated, it appeared that " a planter producing more than 6,000 tons of cane per annum actually had lower costs than those determined for the mill-estates " (eight estates with an average cane output of 100,000 tons).[13]

6. In regard to the manufacturing side of the industry, twenty-three mills, owned by nineteen firms, are in operation. Nineteen of them are situated in Natal and the remainder in Zululand, where cane is supplied by numerous planters. The manufacture of sugar has been placed on a complete mechanical basis. The cane is first

[10] *Board of Trade and Industries Report* No. 66 of 1926, para. 26 (translated).
[11] *Monthly Bulletin of Statistics*, Vol. XVI, No. 3.
[12] *Board of Trade and Industries Report* No. 194 of 1935, para. 16.
[13] *Board of Trade and Industries Report* No. 194 of 1935, Chap. III.

cut up and then crushed by powerful rollers, during which process water is sprayed on the cane in order to facilitate extraction of the sugar. The percentage of sugar extracted by crushing is termed the "extraction efficiency," and is, of course, influenced both by technological factors and by the fibre content of the cane. The resulting juice is decoloured and the water evaporated, while marketable sugar is recovered from the molasses by centrifugal force. The ratio of sugar so retrieved is known as the "recovery efficiency," while the average of the aforementioned two ratios is the "overall efficiency," or the percentage of sucrose actually retrieved as sugar from the cane.[14] The present average is 76%.[15] The sugar obtained by the above process has an average polarisation of 96° and enters the market as raw or cargo sugar. By a refinement of the manufacturing process mill-white sugars may be obtained; they have a polarisation of 99·5° and enter into consumption direct, whereas raws must first be refined.

Two independent refineries are operated by means of the suchar and double carbonatation process at the Illovo Sugar Estates and Natal Estates Ltd. respectively. Excluding mill-whites and the output of the two independent refineries, South African raw sugars are either exported as such or the appropriate proportion is refined for use in the Union at the Central Refinery at Rossburgh. In 1926 the Board of Trade and Industries, impressed by the desirability of standardising sugar qualities and desirous of eliminating inferior mill-whites from the market, had endorsed the principle of the retention of the two independent refineries and the creation of a third refinery.[16] The Hulett Refinery was accordingly acquired jointly by the millers (excluding the C. G. Smith group). This recommendation was ill-advised. The Central Refinery has never worked at

[14] *Cf. Report* Chemical Technologist annexed to *Report* No. 66 of 1926 by Board of Trade and Industries.

[15] Government Notice No. 1359, p. 15.

[16] *Board of Trade and Industries Report* No. 66 1926, para. 60 (12).

capacity, and the quality of mill-whites has improved so substantially that a specially refined sugar is really unnecessary.

7. The output of sugar, the volume of imports and exports and the local consumption are as follows :—

Production, Imports, Exports and Consumption[17] *(Tons)*

	Production.	Imports.	Exports.	Consumption.
1923–24	203,360	583	36,452	—
1926–27	242,622	4,091	66,910	—
1929–30	298,635	15,746	123,590	199,133
1931–32	325,933	4,154	146,977	185,618
1934–35	358,738	1,704	131,733	216,077
1935–36	417,318	1,283	212,548	217,000
1936–37	446,409	1,482	149,982	255,000
1937–38 (Est.)	476,000			

The sugar industry has obviously developed very rapidly since the epoch-making events of 1926–27. It provides employment for more than 2,500 Europeans and 8,000 Indians, while at the height of the cutting season about 40,000 Natives are employed. It is noteworthy that, although the Indian element of the Union's population was introduced in Colonial times at the behest of the sugar interests, the Indian employment value of the industry is at present insignificant. In the course of the expansion of the industry, many virgin lands were brought into use—especially in Zululand—as the cultivation of sugar in Natal partly displaced the former tea industry. In addition to the employment provided by sugar planting and manufacturing activities, the Natalian Railways, shipping, commerce and engineering industry are largely dependent on sugar production and trade.

[17] Extracted from *Official Year Book, Trade and Shipping Statements, Board of Trade Reports, The South African Sugar Journal.*

Neither can there be any doubt that the sugar belt is of major importance in the Union's productive sphere, representing, it is estimated, an investment of £4 million in the planting side and £6 million in the manufacturing side of the industry.

The Rôle of Government in Regard to Sugar

8. Utilising the preceding review as a background, it is possible to describe the rôle of the State in regard to the sugar industry in the Union. At the outset it may prove convenient to mention that Government interference in the industry passed through several phases. Firstly, during the war, price control was exercised. Secondly, customs protection has been accorded to planters and millers. Thirdly, as land settlement had involved the allotment of sugar farms, Government was interested in the relations of millers and planters. Fourthly, the control exercised culminated in the fixation of prices and quantitative limitation of production.

9. With the outbreak of the Great War sugar prices commenced to rise. The Natal sugar industry, however, limited local prices, while exportation had been prohibited in 1914. Owing to internal speculation, Government was obliged to reinforce the price-maintenance efforts of the industry. From June, 1917, the price of sugar was fixed by Government Notice, first under the Moratorium Law and later in terms of Act No. 13 of 1922, which expired in the middle of 1923. It is instructive to note that between May and August, 1920, the local price was limited to £30–£40 per ton, while the London price was £90.

10. The excessive war-time prices are not characteristic, and it has, therefore, been necessary to protect the local industry against foreign competition. Natal sugar obtained preferential treatment in the remaining Colonies by virtue of the Customs Conventions of 1903 and 1906, as foreign sugars were liable to a revenue

duty of £3 10*s*. The further tariff history is as follows :—

	Import Duty (per ton).			Excise Duty (per ton).			
	£	s.	d.	£	s.	d.	
1903–15 . .	3	10	0		—		
1915–26 . .	4	10	0	1	0	0	(renewed yearly and made permanent in 1920).
1926–30 . .	8	0	0	1	0	0	
1930–32 . .	12	10	0	1	0	0	
1932 to date .	16	0	0	1	0	0	

Prior to the termination of the Customs Convention with Mozambique in 1923, Portuguese East African sugar was entitled to duty-free entry. The high prices ruling during the war, however, relieved the Natal industry of competition from that source. The customs protection enjoyed by the sugar belt has repeatedly been reinforced by means of dumping duties. Periodic consignments of dumped sugar have thus been eliminated. Valuable assistance has also been accorded to the sugar interests in the shape of exclusive imperial preferential margins. The extension of the preferential system to sugar occurred in 1919 in respect of the British market, virtually at the request of the United Kingdom. In 1929 Canada similarly instituted preferential treatment in respect of Commonwealth sugar, and the Ottawa Agreements of 1932 not only stabilised the valuable British and Canadian preferences at 4*s*. 1·27*d*. and $1 per 100 lb. cargo sugar (96° Pol.), but resulted in tariff preferences in many British Colonies (of which the Natal industry has made no use). It is clear that the rapid expansion of sugar production in Natal, in the face of falling world prices, was caused directly by the high protective duties and the artificial encouragement of the sugar export

trade. Needless to add, the industry now exports exclusively to the United Kingdom and Canada,[18] and the trade with other African States has dwindled.

11. Prior to 1926 " the industry, as a defensive measure against the importer, had voluntarily undertaken to supply sugar under rebate to selected manufacturers of certain categories of goods, which, in effect, represented a figure on parity with a world price plus the then low duty of £4 10*s*. A second defensive device adopted by the industry was the payment of freights on sugar consigned to Cape Ports," [19] so as to ensure a uniform price level at the coast. The application of increased duties on imported sugar has throughout been conditional upon the maintenance of these concessions to approved manufacturers using a minimum quantity of sugar in industries selected by the Natal Sugar Millers' Association. In 1933–34, 23,803 tons of sugar were supplied to manufacturers under rebate of £197,950, while defrayal of freight charges in that year involved an expenditure of £117,295. These industry obligations, and the rebate of the excise duty of £1 per ton in respect of sugar used for industrial purposes in compliance with the relative regulations,[20] have contributed materially towards the maintenance of the competitive position of the South African secondary industries using sugar. The Sugar Association has from time to time extended the rebate facilities to manufacturing industries which were previously excluded from the scheme. Manufacturers who are dissatisfied with the treatment which they receive from the Association usually seek the intermediation of the Board of Trade and Industries.

12. Governmental interference in the internal working of the sugar industry originally arose from the tripartite agreements entered into in 1905 when the Colonial

[18] Exports to Canada are variable. In bumper crop years the British West Indies underbid Union exporters, and, if cutting is delayed in Natal, shipments are reduced by the freezing of the St. Lawrence River.

[19] *Board of Trade and Industries Report* No. 194 of 1935, para. 54.

[20] G.N. Nos. 530, May 11th, 1915; 1768, October 4th, 1929; 1410, August 8th, 1930; 1110, August 2nd, 1935.

Government set aside certain Crown lands in Zululand for cane cultivation, *viz.*, the Government allotted land on lease to planters for ninety-nine years on the understanding that they would cultivate sugar cane on at least 15% of the land, and that they would enter into agreements for the crushing of cane at a central mill to which sole crushing rights had been conceded by Government up to a stated limit of cane grown within a specified area by Crown allottees. Government was, therefore, interested in protecting the interests of the servitude planters and of the concession mills.[21]

In 1922 the Baxter Commission of Inquiry recommended that the Zululand miller-planter agreements be revised as they incorporated the unscientific principle of making the price of cane dependent on the weight of cane (irrespective of its sugar-content, except insofar as weight and sucrose are correlated), and regardless of whether the cane was burnt or hand-trashed. Moreover, the Commission considered that a uniform cane-payment basis should be applied in the entire industry.

13. These recommendations were not implemented, as the Conference called for that purpose could not arrive at an agreement. Hence, in 1926, the Board of Trade and Industries investigated the industry anew, as further protection was sought in view of the fall in world sugar prices in 1925. The Board arrived at the following principal conclusions [22] :

(*a*) That joint research be undertaken in order to improve the efficiency of the industry and to promote standardisation of sugar.

(*b*) That the crushing season be shortened and milling activities correlated with cane deliveries.

(*c*) That cane be paid for on a sucrose basis, subject to a differential price if cane is not hand-trashed or if it is dirty or inferior. At the time,

[21] See *Official Year Book*, *Report of the Baxter Sugar Inquiry Commission* (1922), *Report* No. 66 of 1926 by the Board of Trade and Industries.

[22] Report No. 66 of 1926 by Board of Trade and Industries, recommendations 10 and 17.

payment was made according to the weight of cane (1 ton of cane fetching 12*s.* with Durban raw sugar prices at £17 per ton, or in proportion to the 12/17 ratio).

(*d*) The Zululand tripartite agreements of 1905 be revised, since their twenty-five-year currency had rendered them inequitable to planters, while they had also resulted in the general adoption of a cane price depending upon the weight of cane.

From August 10th to September 4th, 1926, a Conference was held in Durban under the chairmanship of Mr. F. J. Fahey, of the Board of Trade and Industries, and 90% of the millers and planters (both in number and output) attended. A ten-year agreement, known as the F.C.A.,[23] resulted from the Conference deliberations. Although the contracting parties envisaged that the F.C.A. would be enforced under authority of the State (in order that it might also apply to a few dissentient planters and small mills who had held aloof), Government was not inclined to legislate on the matter. But in consideration of the reorganisation which had been effected, the customs duty was increased from £4 10*s.* to £8 per ton, by proclaiming the suspended duty of 3*s.* 6*d.* per 100 lb. At the same time, the maximum retail prices of sugar at Union ports were fixed by the Sugar Prices Act (1926) at 3·75*d.* per lb. No. 1 refined, and 3·5*d.* per lb. of mill-white sugar.

The F.C.A.

14. In addition to the decisions regarding hand-trashing, manufacturers' rebates, freight payments and the premium of 1*s.* per ton for soft cane, to which earlier reference has been made, the F.C.A. embraced the following:

(*a*) A central refinery would be set up by the joint purchase of Hulett's Refinery at South Coast

[23] F.C.A., signifies Fahey Conference Agreement.

Junction. The planters were enabled to subscribe to refinery shares to a total of one-half of each raw mill's quota. Debenture interest and dividends were limited to 8%, and any surplus had to be returned to cargo sugar suppliers in payment of their sugar. Planters were thus placed in the position of benefiting from the payment of dividends as well as from refinery profits, as the basic sugar-price formula took account of the realisation values of raw sugar sent for refining.

In practice the result was rather different. In defining raw sugar values no account was taken of mill-whites, although the sale of mill-whites restricts the local demand for refined sugar. Consequently the Hulsar Refinery has shown high costs, which are directly attributable to the partial utilisation of the available refining capacity. Raw sugar values were accordingly diminished on account of the high refining margin which had to be deducted for the purpose of ascertaining the equivalent raw sugar values.

(*b*) In regard to cane prices, it was agreed that payment would be made according to the percentage sucrose in the cane. An average of 13% was taken as a basis, with proportionate allowances for a higher seasonal average sucrose content and corresponding reductions for a sucrose deficiency, while cane with a sugar content below 8%, or yielding a juice with a purity below 78, would be rejected.

For cane-price formula purposes, the parties accepted an overall recovery efficiency of 73·5%, "15/6 as the cost of a ton of cane of 13% sucrose, 10·047 tons of such cane as the quantity necessary to make a ton of 96° polarisation sugar, and £6 as the cost of manufacturing a ton of sugar" and railing it to Durban. The formula evolved was also based on the principle that the excess

or shortage between the returns for cargo sugar exported or refined for local consumption, and the cost of production (of cane and raw sugar combined according to the above figures relating to 1923–26) would be shared equally between millers and planters. Previously planters had not shared in export losses (except indirectly). The formula, therefore, provided that:

$$\text{The value of cane} = \frac{\begin{array}{c}\text{Growers' seasonal}\\ \text{average sucrose}\\ \text{content of cane}\end{array}}{100} \times \text{Value of sucrose; and,}$$

$$\begin{array}{c}\text{the value}\\ \text{of sucrose}\end{array} = \begin{array}{c}\text{Cost of 10·047}\\ \text{tons of cane}\end{array} + \tfrac{1}{2}\begin{pmatrix}\text{Value of Raw}\\ \text{sugar minus}\\ \text{Miller's cost of}\\ \text{1 ton sugar}\end{pmatrix} \times \begin{array}{c}\text{Overall}\\ \text{Efficiency;}\end{array}$$

or, according to the accepted figures:—

Value of 1 ton sucrose at any average value of 96° Pol. sugar =

$$\frac{73{\cdot}5}{100} \times \frac{100}{96} \cdot \left\{ 15/6 \times 10{\cdot}047 + \tfrac{1}{2}\begin{pmatrix}\text{Value of cargo sugar}\\ \text{minus}\\ 15/6 \times 10{\cdot}047 + £6\end{pmatrix}\right\},$$

so that the value of 1 ton cane of any sucrose (above 9%) =

$$\frac{\text{Sucrose \% of Cane}}{100} \times \text{Value of 1 ton sucrose (as above).}$$

The value of cargo sugar was obtained as follows:—

$$\frac{x\begin{pmatrix}\text{Value of} & & \text{Cost of Refining}\\ \text{Refined} & - & \text{and 8\% interest}\\ \text{Sugar} & & \text{on Refinery Capital}\end{pmatrix} + y\begin{pmatrix}\text{Net Return for Exported}\\ \text{Raw Sugar}\end{pmatrix}}{x+y},$$

(where x and y are the tonnages of raw sugar sent for refining and exportation, respectively).

Finally, the F.C.A. provided for payment of cane thirty-five days after the month in which the cane is delivered to the extent of 90% of its provisional value, the balance to be paid on April 30th of each year. Tram-line transport costs, which influence the net return to the planter, were left for arrangement between mill and planter (although a number of agreements thereanent were incorporated in the F.C.A.).

15. The F.C.A. did not remove all friction between millers and planters. For instance, it had been decided some years previously that planters would be paid month by month with the exception of 10%, retained by millers for an average period of six months, and earning interest at 8%. In the F.C.A. "no provision was made for the continuance of the practice of paying interest on the money retained, and subsequently certain millers availed themselves of their apparent legal right to refuse to pay interest." [24]

Furthermore, the continuous deterioration of raw sugar values caused a decline in cane prices. Admittedly, the deficiency was shared equally between millers and planters; but, since other prices fell simultaneously, millers were able to recover their losses in part by reducing milling costs below £6 per ton of sugar as well as by improving their recovery ratio (which, in any case, varies from mill to mill). Planters' costs, however, were more constant as mortgage interest constituted an important and intractable burden. In addition, the increased protection led to an expansion of cane output —very largely on account of extended plantings by miller-*cum*-planters. The independent planters were also confronted with lower cane values caused by an increase in production for which they did not have the major responsibility.[25]

The deterioration of sugar and cane values is reflected by the table on p. 157.

It is evident that the industry could only expand on an uneconomic export basis by securing compensatory prices in the Union or by increasing local sales. Hence, in return for the imposition of the prohibitive import duty of £16 per ton (or 1·82*d*. per lb.), which effectively safeguarded the local market, the industry acquiesced in a reduction in maximum coastal retail prices by the Sugar Prices Act, 1932, from 3·75*d*. to 3·5*d*. per lb.

[24] *Board of Trade aud Industries Report* No. 119 of 1931, para. 11.

[25] *Cf.* Addendum by Dr. A. J. Bruwer to *Report* No. 119, 1931 of the Board of Trade and Industries.

	Returns from No. 1 Refined (ton).			Returns from Export Cargo Sugar (ton).			Average Return of Natal Crop (96° Pol.) Sugar (ton).			Returns to Planters for 13 % Sucrose Cane (ton)
	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*	
1927–28 .	22	11	4	12	18	6	16	2	0	17/10
1929–30 .	20	2	7	12	3	9	15	8	5	17/3
1931–32 .	18	2	5	7	2	3	10	7	1	12/1
1934–35 .	19	17	0	6	4	1	12	10	1	14/2.5
1935–36 .	19	12	10	6	6	0				12/4.5

No. 1 refined, and from 3·5*d.* to 3·25*d.* per lb. in the case of mill-whites.

The uneconomic expansion of exports, as a result of enlarged output and a declining internal demand, placed a heavy burden on the industry as well as on the consumers. In 1931 the Board of Trade and Industries accordingly advocated an export tax of £2 per ton on exports in excess of 175,000 tons per season, in an endeavour to limit production,[26] but the recommendation was not accepted. In 1935 the Board presented a report on the working of the F.C.A. and the future policy in regard to the sugar industry. It was found that the figures accepted in 1926 as the cost of cane (15*s.* 6*d.* per ton) and the cost of milling (£6 per ton) were excessive and should be replaced by 14*s.* and £4 3*s.* respectively. The Board further considered that all mills should share in the export pool in order to discourage any new producers who might hope to cater for the local market only, and that, since both millers and planters concurred, production should be restricted. However, the position of small planters should be safeguarded against rising exports at falling prices. Finally, the Board recommended a miller-planter conference to

[26] *Report* No. 119, 1931.

discuss the proposals, and emphasised that the maintenance of the existing protective duties should be made contingent upon the continued observance of the 1926 undertakings concerning manufacturers' rebates and payment of freights to Cape ports.

THE N.F.C.A.[27] AND THE SUGAR ACT, 1936[28]

16. After protracted and unsuccessful preliminary negotiations, a plenary conference of millers and planters was convened in 1936, again under the chairmanship of Mr. F. J. Fahey, Chairman of the Board of Trade and Industries. The N.F.C.A., which resulted from the deliberations at the conference, has a currency of five years. Its essence is the limitation of output to 476,488 tons per annum, with concessions to the weaker and younger mills; a new cane-price formula, and preferential treatment of small planters. The N.F.C.A. was accepted subject to its compulsory enforcement by Government on the whole industry and it is proposed to discuss the Agreement in conjunction with the relative Sugar Act of 1936.

17. The Sugar Act embodies the cardinal principle that a miller-planter agreement, endorsed by 90% of the contracting groups (both in number and output), in reference to cane prices based on determined sugar values, regulation and restriction of production and the distribution of sugar, and, providing for a board to administer it, may be made compulsory by Government. The agreement may only be concluded by independent European planters and planter firms which have no major interest in sugar manufacture with the sugar mills. The Minister is empowered to prescribe maximum coastal retail prices and maximum retail prices for special

[27] N.F.C.A., signifies New Fahey Conference Agreement.

[28] The Act No. 28 of 1936, and the relative proclamations Nos. 1116 and 1359 were published as a supplement to Government *Gazette* No. 2380 of September 11th, 1936. Any reference to these measures relates to the supplement to the *Gazette*. *Cf. Hansard* No. 14, 1936, and *The South African Sugar Journal.*

grade sugar at places within a radius of five miles from a rail-head, subject to absolute maxima of: 3½*d.* per lb. for refined and 3¼*d.* per lb. for mill-white at the main ports, and 2½*d.* per lb. for special grade sugar. The provision was also inserted that if the basic price of sugar for cane price purposes has during any year exceeded £12 per ton, retail prices may be reduced. Furthermore, a special grade of sugar could be prescribed for sale by millers in the Union and South West Africa at a maximum price of £14 10*s.* per ton (1·74*d.* per lb.), f.o.r. Durban, and every miller must manufacture and sell his *pro rata* share of the estimated twelve-months sales of the special grade sugar. Finally, it is provided that a miller may arrange with another miller to carry out his obligations, while new millers are subject to the requirements of an agreement relating to export and the supply of special grade sugar.

18. In pursuance of the Sugar Act (1936), the maximum retail prices referred to in the preceding paragraph were proclaimed. The South African Sugar industry's standard two-grade sugar was duly prescribed and has since entered the trade under the colloquial appellation of Government sugar. The sugar has a distinctive colour and is specially bagged. It is intended primarily for use by the poorer European section and by the Native and Coloured community, but it would seem to be used for cooking by the housewife as well as by small manufacturers who do not qualify for rebate facilities. The sugar industry appears to have been sceptical, if not antagonistic, towards this experiment with a special grade cheap sugar and one gains the impression that the industry was only induced to agree to its introduction by treating it as a *quid pro quo* for placing the N.F.C.A. on the statute book. Thus the *Sugar Journal* averred that "Years of experience have proved that the Natives prefer to buy a high-grade sugar and they will not be attracted by an inferior sugar, even if it saves them a few half-pennies in expenditure. Moreover, there is no evidence that poor European

people will purchase an inferior sugar. . . . There is a flavour of political pandering to the poorer class of voters in this."[29]

A maximum railage rate of 3*s.* 2*d.* per 100 lb. was applied to the grade 2 sugar (as contrasted with the normal railage on refined and unrefined sugar as per schedule mileage rate 6), and the industry arranged for its production at the Felixton Factory in order to maintain a uniform appearance as well as the agreed standard of purity. In order not to freeze out the grade 2 sugar and with the additional object of minimising its competitive effect on mill-white and refined sugars, the industry was assured that 210,000 tons of white high-grade sugars could be sold locally while any additional demand should be met by grade 2 sugar. The demand was originally estimated at 15,000 tons per annum, but the success of the low-priced variety has been strikingly confirmed by the growth of sales to 32,564 tons during the nine months ending April 30th, 1937. The success achieved indicates that the special sugar satisfies a real need, but it is partly due to the favourable economic conditions which prevailed when the scheme was launched. It may be mentioned that the market took about 50,000 tons grade 2, 100,000 tons mill-whites, and 110,000 tons refined sugar in 1937.

19. With effect from May 1st, 1936, the output of the Natal Sugar industry was limited to 476,488 tons in pursuance of the N.F.C.A. The maximum output exceeds the peak production of the several mills of 450,505 tons, and it would, therefore, appear that an allowance was made for an annual increase in local consumption (exports remaining constant). Special provision was, however, made for an increase in the quotas of the smaller and under-developed mills, on the understanding that should the anticipated increase in

[29] *The South African Sugar Journal*, Editorial, April 30th, 1936. The idea of a distinctive cheap sugar is not new and it is of interest to note that a suggestion in that direction was made in para. 33 of *Report* No. 119 (1931) of the Board of Trade and Industries.

their output materialise, proportionate reductions will be made from the quotas of other milling units.

The N.F.C.A. makes ample provision for a re-allocation of shortages at one or other mill to those mills which may have cane surpluses. The inter-mill quotas are stipulated in the agreement, but the allocation of mill quotas amongst European planters (inclusive of miller-*cum*-planters) and non-European growers, is left in the hands of Mill Group Boards, and Non-European Boards, if any. The basis of allocation of growers' standard quotas is the highest average of individual supplies during two consecutive years between the years 1931–32 and 1935–36. An important feature of the production control which has been instituted is that small European growers are entitled to additional assignments to bring their individual quotas up to 3,500 tons of cane, which figure is regarded as a minimum for economic production. Similarly small non-European growers are entitled to preferential cane allocations if their financial commitments justify such special consideration.

The five small mills have in addition been assisted by concessions which limit their export obligations. The non-concession mills are obliged, subject to a few special conditions, to share equally in the (unprofitable) export pool. New mills are subject to the same obligations, and, as they will also be called upon to supply a *pro rata* share of grade 2 sugar, it would seem that the emergence of additional uneconomic milling units has been checked.

20. Standard cane prices are calculated in accordance with a formula which differs from that of the F.C.A. in the following respects:

(*a*) The base price of cargo sugar is the weighted average of the value of cargo sugar sold for export and of the raw sugar equivalents of the values realised by locally refined sugars (including mill-whites) and grade 2 sugar. In this computation, the proceeds and tonnages of

those mills which enjoy export concessions or preferential domestic quotas, are excluded. The F.C.A. formula only took cognizance of cargo sugar exported and refined.

(*b*) Railage on sugar to Durban (as stipulated for each mill in the agreement) is shared by millers and planters in the ratio of 35·6685 to 64·3315. Previously railage was regarded as a manufacturing cost.

(*c*) Whereas the profits or losses on sugar (compared with the sum of the cost of producing cane and of manufacturing raw sugar), were shared equally between millers and planters during the currency of the F.C.A., the operative principle is to divide the proceeds in proportion to cane cost and manufacturing cost (of 96° Pol. sugar); hence the ratio of 64·3315 : 35·6685.[30]

(*d*) The data agreed to by the contracting parties are:

	N.F.C.A.	(F.C.A.)
Cost of milling 1 ton cargo sugar	£3·7	(£6)
Cost of producing 1 ton cane	14*s.*	(15*s.* 6*d.*)
Sucrose per cent. of cane .	13·25	(13)
Overall recovery . .	76%	(73·5)
Polarisation of sugar .	96°	(96°)
Tons cane used per ton raw sugar . . .	9·5333[31]	(10·047)

The most striking feature of the foregoing data is that they refer to the marginal (but excluding the concession) mills, or to the relatively inefficient milling units. The all-round increase in efficiency since 1926 is therefore apparent. Mill-whites are treated as

[30] Cost of cane = 14*s.* × 9·5333, and cost of milling equals £3·7.

[31] $\frac{100}{13.25} \times \frac{100}{76} \times \frac{96}{100} = 9.5333.$

refined sugars for the purpose of calculating the base price of cargo sugar, and, since the refining costs were computed with reference to the Central Refinery, it is evident that "marginal" costs are also used for the purpose of arriving at the base price used in the following marginal formula for cane payments :

$$\text{Value of 1 ton cane of any sucrose} = \text{Value of 1 ton sucrose} \times \frac{\text{Growers' seasonal average sucrose content of cane}}{100}$$

and the marginal formula for determining the value of 1 ton sucrose is :

$$\frac{64.3315}{100}\left\{\text{Base price } 96^\circ \text{ cargo sugar} - \text{Railage on sugar}\right\} \times \frac{76}{100} \times \frac{100}{96}.$$

(*e*) A further difference between the new and old cane price formulas is that cane with a sucrose content below 9° is no longer rejected or subjected to a differential discount. In the event of the continuous delivery of cane which is dirty or deficient in regard to its sucrose content, the Mill Group Boards may, however, order the cane to be returned to the sender. In this way individual hardship has been lessened, without relinquishing control over the quality of cane. Finally, soft cane growers receive an additional allowance on a basis determined by the Sugar Industry Central Board.

21. The important principle has also been introduced by the N.F.C.A., that European growers, other than those supplying the export concession mills, receive payment from an Equalisation Fund in addition to the standard values given by the marginal formula. These extra payments are made in accordance with the formula :

$$\frac{15{,}000 - y}{7{,}500} \times 10d. \text{ per ton of cane,}$$ [32]

subject to the provision that the factor of 10*d*. may be reduced if the Equalisation Fund is depleted.

[32] *y* represents the tons of cane supplied by the eligible grower during the season.

In order to assist the sub-marginal European growers, the non-concession millers pay a levy of 1½*d.* per ton on all planters' cane crushed by them, and a levy of 3*d.* per ton on their own quota of cane.[33] The differential levy serves to compensate planters for the disproportionate expansion of the cane output of miller-*cum*-planters and the resulting deflation of base prices owing to enlarged exports. Furthermore, since intra-marginal millers, with an overall recovery exceeding 76%, and producing mill-whites with a polarisation above 96°, devote a proportion of sugar proceeds to the purchase of cane which is smaller than their share of 35·6685%, they are required to pay specified amounts (totalling £51,000) to the Equalisation Fund in each milling season.

In respect of the standard cane price and payments from the Equalisation Fund, the practice is followed of paying 90% of the provisional values and estimated supplies respectively, within thirty and thirty-five days after the last day of the month in which the cane is delivered. The balance is paid at the end of the season (subject to interest at 6% per annum in respect of payments by millers under the marginal formula).

22. It is clear that the export concessions, preferential domestic quotas, preferential cane quotas to small European and non-European growers, differential tonnage levies and fixed annual contributions of the intra-marginal mills, serve to equalise to some extent, the position of economic and uneconomic mills, of small and large planters, and of planters and miller-*cum*-planters. In effect, therefore, the ordinarily economic section of the industry subsidises the small planting and milling units. The preferential sugar and cane quotas will

[33] A levy of 1½*d.* per ton of non-European cane *plus* an equivalent contribution by the miller, may be used for distribution to non-European planters. It is evident that small non-European growers do not enjoy the same benefits as small European planters. They are not entitled, as a matter of right, to a minimum cane quota of 3,500 tons, and the Equilisation Fund to which millers make large contributions is reserved for distribution to European planters with an output below 15,000 tons. It should be recalled that non-European planters have no vote when an agreement is concluded.

assist somewhat in rendering the existing uneconomic units self-supporting, but it would seem as if considerably greater expansion would be required on their part than is envisaged by the N.F.C.A. At the same time, it must not be overlooked that the improvement in cane culture will have a beneficial effect on the entire industry, and that production costs (of the marginal mills) have already decreased substantially since 1926. However, if the balance of cane production is turned in favour of Zululand, the uneconomic position of the small Natal mills will be aggravated despite the different compensatory measures introduced by the N.F.C.A.

The London Sugar Agreement, 1937[34]

23. Empire sugar producers have been prone to regard the Commonwealth markets as a closed preserve, contending that the British Empire group is an importing and not an exporting entity, so that they have no interest in international restriction schemes. Thus, they did not participate in the Chadbourne Agreement concluded in 1931.

On account of the decline in consumption during the depression, the erection of new fiscal barriers, and the increased output of sugar by non-agreement countries concurrently with a lowering of output in the controlled area, the Chadbourne Agreement did not succeed in improving the sugar market. Hence, in 1936, world sugar prices were not far removed from the depression nadir. Meanwhile the United Kingdom had decided to restrict the production of beet sugar, and as the sugar preferences were due for review, the Empire producers were induced to participate in the London Sugar Conference, presumably in return for a stabilisation of these preferences.

The resulting Agreement, signed on May 6th, 1937,

[34] *Cf. Foreign Agriculture*, United States Department of Agriculture, Bureau of Agricultural Economics, Vol. I, No. 6; *League of Nations Reviews of World Production; Report of the United Kingdom Sugar Industry Inquiry Committee*, Cmd. 4871.

assigned basic export quotas to the thirteen major countries selling to the free market. Australia, South Africa and the British Colonial Empire agreed to limit their exports, subject to the understanding that, in the event of an increase in British consumption, a proportional increase will be made in the beet-sugar quota of the United Kingdom and in the export quotas of the Commonwealth cane producers. South Africa secured an annual quota of 209,000 metric tons, or 230,000 tons.

The object of the international sugar agreement is to improve the price of sugar and to eliminate excessive price fluctuations by maintaining a position of balance between sugar supplies and world demand. From the point of view of the Union, the agreement is satisfactory. It has served the purpose of safeguarding the preferential United Kingdom outlet, and insofar as world prices do improve as a result of international restriction of output —they have already risen by a noticeable amount—the loss sustained on exports will diminish. In addition, section 6 (1) (*d*) of the Sugar Act, 1936, provides that domestic sugar prices may be reduced if the base price of raw sugar exceeds £12 per ton. Both the enhanced domestic consumption and an improvement of world sugar prices will, therefore, hasten the day when further concessions may be made to the South African consumer without detriment to the Natal sugar industry.

24. At present the annual sugar output is limited to 476,488 tons and the local consumption approximates 255,000 tons leaving an export surplus of 221,488 tons —or slightly less than the export quota accepted under the London Agreement. This leeway, however slight, is of considerable importance, having regard to the fact that the N.F.C.A. expires in May, 1941, while the International Agreement terminates in May, 1942. There is every prospect that the maximum output will be increased in, or before, 1941, and it is, therefore, extremely fortunate that some scope for increased exportation has been retained. As it is, the high yield of the soft canes, which are rapidly becoming of the greatest

importance in Natal, has already revolutionised the productive capacity of the industry. Thus, despite the fixation of the restricted output at 25,000 tons above the sum of the peak outputs of each mill, the second season of restriction (1937–38) encountered a surplus of cane; in order that it might not be left uncut, the maximum production quota was suitably increased for that season.

25. Sugar prices in the Union compare favourably with retail prices in the countries with protective sugar duties, but they far exceed the prices which obtain in the few States comprising the free market or in those regions where sugar production is conducted solely on an export basis. The criticism of (well-informed) consumers and students of the industry is, however, not directed primarily at the absolute level of our sugar prices. Indeed, retail prices are lower than the figures of the Department of Census and Statistics would lead one to believe, since no account is taken therein of mill-whites and grade 2 sugar. The indignation at the ruling level of sugar prices in South Africa, usually, and quite correctly, has its origin in the fact that one-half of the crop is retailed overseas at about one-half of the prices payable by the South African consumer. Insofar as the uneconomic export position is a result of excessive protection and Commonwealth preferences, the case of the critics is unassailable.

The prevalence of dumping has, however, not been an unimportant contributory factor, and it would have been foolhardy to have allowed the industry to succumb during the world depression when international sugar prices were entirely abnormal, and the level of employment in South Africa so low that a transfer of factors of production from the sugar industry was virtually out of the question. In any event, the need exists to protect the capital invested in sugar milling, planting and refining. Neither is it inconceivable, having regard to the vicissitudes of international politics and the revolutionary effect of the introduction of soft canes, that sugar

exports may regain something of their former profitable character.

Moreover, in the heat of the moment, the critics are too apt to lose sight of the substantial reductions in production costs which have been made by planters and millers alike since 1926; they are too prone to ignore the improvements in technical and agricultural standards which have been achieved; they are not adequately aware of the reorganisation which is in progress with a view to raising the productivity of existing sub-marginal units; finally, they do not remember that, rather than open their boundaries to the Natal Indians who would be displaced, both directly and indirectly, by a curtailment of sugar output, the remaining Provinces would much prefer to pay an additional penny per lb. on sugar.

26. In relation to the Marketing Act, it is evident that, in mild form, the elements of group discipline under State supervision, have been present in the sugar industry since 1926. The practice has now been perpetuated by the Sugar Act of 1936 and the creation of a permanent Sugar Industry Central Board to administer the N.F.C.A. and future agreements. The technical complexity of organised marketing and price-fixation is, however, well illustrated by the history of the industry and contains much which is of interest in connection with the comprehensive policy of applying the system to agriculture generally. To non-producers it should also be a comforting thought that, although infallibility cannot reasonably be expected, supervisory control by the State and a purposive adaptation of the pecuniary incentive, can be employed with success in order to promote technical progress and rational organisation, and to improve the economic efficiency of individual producing units, with less friction and at a greater speed than educative propaganda and the unharnessed forces of supply and demand have in the past achieved. Neither is it open to challenge that group control under Governmental tutelage is an effective way of attuning quality and price to consumers' requirements.

CHAPTER VII

EVOLUTION AND PROSPECTS OF FOREIGN TRADE POLICY

Pre-1925 Policy

1. In the course of consolidating its national self, every nation of the world is staking the natural resources of its territory and the aptitudes of its citizens against those of other countries. It is a question of economic warfare, therefore (if we disregard other manifestations of this rivalry), and the practice of discrimination has proved a very suitable weapon. Nationals and their ventures are accorded more favourable treatment than foreigners, while the commerce of selected foreign nations enjoys treatment which is more favourable than that meted out to countries not classed in the same category.

It is axiomatic that if a country desires to discriminate on an intelligent basis, close acquaintance with its own industries is necessary in order to determine the degree of protection and the requirements in foreign markets. In conjunction therewith the circumstances obtaining in the outside world will decide what is the most appropriate discriminatory policy. It is proposed to investigate how South Africa's foreign trade policy has been framed, compounded as it is of a close regard for the Union's industries and the disturbing effects of varying world conditions. At the outset it may be noted that the emphasis on the unstable international situation implies that a foreign trade policy must be adaptable, if not opportunistic, if it is to be successful.

2. It has been characteristic of South African exports for the past fifty years that a considerable proportion was comprised of gold and diamonds and the balance

mainly of raw materials. Owing to the dual circumstance that these export commodities enjoyed an unrestricted world demand, and that selling arrangements had developed for their disposal in the United Kingdom, there was no need for the Union to embark upon a purposive foreign trade policy. Moreover, with the exception of France, which country adopted the principle of reciprocity in its foreign trade relations in 1919, and the United States of America, which only renounced that policy in 1922, the general adoption of the principle of most-favoured-nation treatment in bilateral treaties and the pervasive scope of those British commercial treaties which also applied to the Union, resulted in the virtual elimination of discrimination against South African exports.

3. The reorientation of economic activity during the World War was accompanied by a changed complexion of South Africa's exports. Coincident with this development, there occurred an alteration in the regional distribution of Union exports. In summary, gold and diamonds declined in relative importance, while the proportion absorbed by the United Kingdom also fell. The need to promote exports by removing discriminatory obstacles therefore, assumed a growing importance, and the practical significance of the change was emphasised by the political striving towards an autonomous status.

For illustrative purposes it may be mentioned that gold, diamonds and other minerals accounted for 77·5% of South African merchandise exports in 1910–14, and for only 63·5% in 1925–29. Direct exports to the United Kingdom equalled 88·3% of total exports in the first period, compared with 57% in the second. At the same time, those export products which encounter intense competition and artificial restrictions in foreign markets had been steadily increasing, while a comparable increase occurred in the products which are usually exported at a loss. In respect of both categories there is a natural interest in securing improved facilities in foreign markets, and it is probably no exaggeration to state that the

Union's foreign trade policy has been fashioned almost completely in the interest of the following commodities, exported to an average amount of £876,000 in 1910–14, £6·7 million in 1925–29 and £8·1 million in 1935: Dairy products, eggs, fish, fruit, maize, meat, spirits, sugar, tobacco, wine, wattle bark and extract.

4. Imbued by the desire to widen the available outlets for an increasing diversity of exports, South African trade representatives were appointed for propaganda purposes in non-Commonwealth countries. Furthermore, the former passive attitude in regard to commercial agreements was remedied by the passage of the Customs Tariff Act of 1925, which provided for the conclusion of agreements with foreign countries. At the 1926 Imperial Conference Great Britain also renounced all powers in regard to the treaty rights of the Dominions. It thus became the declared policy of the Union to negotiate treaties at her discretion. This decision was well advised in that it relieved the United Kingdom of the duty to negotiate in the interests of the self-governing Dominions, who are better acquainted with their own needs, while direct negotiation also engenders a closer contact with their customers.

Direct Negotiations after 1925

5. With a view to concluding trade agreements, a Departmental External Trade Relations Committee was formed [1] so as to ensure that adequate account would be taken of the different interests involved. Moreover, negotiations were instituted with the principal European countries, including France, Germany, Belgium, Holland and Poland. It soon appeared, however, that in order to secure an alleviation of the discriminatory measures applied to Union produce, and in order to obtain tariff and other pecuniary concessions, the Union Government would have to accord counter-concessions in the form of

[1] At present the Secretary for External Affairs is Chairman and the heads of the following departments or their deputies are members: Commerce and Industries, Agriculture and Forestry, Finance, Customs and Excise, and Mines.

reductions in customs duties. The 1925 Tariff consisted of maximum and minimum duty columns. In respect of selected British, Canadian and New Zealand products the minimum rates of duty had been applied by statute. The minimum duties could also be accorded to foreign countries, but not in respect of goods on which Commonwealth States enjoyed that benefit. These minimum duties had, however, been designed primarily as a means of penalising protected industries, should they abuse their protected position. Hence, in practice, the maintenance of the maximum duties was necessary in order to safeguard the Union's industries, while in respect of those tariff items which related neither to protected industries nor to Commonwealth goods enjoying a preferential margin, the revenue sacrifice involved generally precluded their use as a bargaining counter.

In these circumstances only one treaty was concluded with non-contiguous and non-Commonwealth countries prior to 1935, *viz.*, the Treaty of Commerce and Navigation between South Africa and Germany of September 1st, 1928. In conformity with the numerous British treaties which were then applicable to South Africa, the Union-German Treaty was framed on an unlimited reciprocal most-favoured-nation basis, exclusive of concessions affecting frontier traffic, contiguous territories, customs union commitments, vessels carrying ocean mails, the coasting trade and customs tariff rebates then granted to the United Kingdom and the British Colonial Empire, Canada and New Zealand. The only departure from pre-existing practice was the stipulation in Article 8 of the Treaty that future tariff concessions to Commonwealth countries would be extended to Germany, and, by implication, to the other countries entitled to most-favoured-nation treatment.

6. With the onset of the depression, the main immediate concern of the Union Government was to engineer a recovery of raw material prices. At the 1932 Ottawa Conference the member States of the British Commonwealth of Nations were unanimous in that aim

and recorded their conviction[2] "that by lowering or removal of tariff barriers among themselves provided for in these Ottawa agreements, the flow of trade between the various countries of the Empire will be facilitated and that by the consequent increase of purchasing power of their peoples the trade of the world will also be stimulated and increased." In pursuance of this optimistic view concerning the beneficial outcome of inter-Commonwealth reciprocity agreements "the various Governments stated that it was their policy that no treaty obligations into which they might enter in the future should be allowed to interfere with any mutual preferences which Governments of the Commonwealth might decide to accord to each other, and that they would free themselves from such existing treaties which might so interfere."

Accordingly, on October 13th, 1932, Article 8 of the Union-German Treaty of 1928 was amended by the exclusion of any future inter-Commonwealth tariff preferences from the scope of the most-favoured-nation clause. The only possible bargaining counter at the disposal of the Union's negotiators with foreign countries was thus removed. It is not in these circumstances surprising that, with the exception of certain contiguous countries and France, no commercial agreements were negotiated until after the introduction of a three-line customs tariff by virtue of Act No. 44 of 1935.

The Tariff Revision of 1935

7. In the intervening years many far-reaching changes occurred in world trade relationships, of which, since they had repercussions on the trade treaty policy of the Union, it is desirable to furnish a summarised account.

Firstly, during the years 1925–29, the industrialised European countries had embarked upon an extensive programme of stimulating agricultural production. When prices commenced to decline in 1929, a higher protective barrier was, therefore, the first and obvious reaction. Even the United Kingdom joined the ranks

[2] *Report of the Imperial Economic Conference.*

of those European nations which were striving to attain a larger degree of self-sufficiency in regard to foodstuffs. The customs tariff has since declined in relative importance as a restrictive measure, but the ever-rising tariff barrier did exercise an influence in South Africa, as it emphasised the need of a bargaining instrument in order that existing markets might be retained by granting suitable concessions.

Secondly, the severe price decline which occurred as the depression advanced and the protracted duration of the ensuing unremunerative prices necessitated the adoption of additional measures to implement the policy of agricultural protection. The severity and velocity of the price decline, concurrently with the enhanced competitive capacity of those exporting countries which had depreciated their currencies, made customs duties relatively ineffective as a protective device. Instead, the practice developed of licensing importers in order so to limit total imports. Initially the control of imports was vested in representative commercial associations, but it soon appeared that import quotas were also of service as a means of safeguarding the balance of payments and the exchange value of the national currencies. Quantitative restriction of imports was thereupon centralised and became the focal point of bureaucratic regulation of external trade. Import quotas proved a superb means of counteracting foreign competition, but their very perfection perpetuated their existence as the difference between internal and world price levels became a permanent phenomenon. Furthermore, the bureaucratic quota system was soon applied in a discriminatory way, and since retaliatory steps were resorted to by the supplying countries, trade restrictions were multiplied. The quota system is essentially foreign to a most-favoured-nation régime, as, at the very best, quotas are so administered as to maintain the *status quo* amongst supplying countries, thereby limiting international competition. In practice, moreover, the quota system has generally been applied arbitrarily with the salient object

of reducing adverse trade balances *vis-a-vis* individual countries, and the achievement of that result has frequently been facilitated by the imposition of differential imposts over and above the usual customs duties.

Thirdly, the European countries had suffered in common from the post-war inflation, and they were, therefore, remarkably unanimous in their desire to prevent exchange depreciation. Quota systems were, therefore, speedily applied to that purpose, and they thus shed their original protective character. In many countries, however, quantitative restriction alone proved an inadequate measure for defending the afflicted national currencies against exchange depreciation. Hence exchange control was also resorted to by those countries lacking foreign exchange and gold reserves, which found themselves compelled to ration their limited current supplies of foreign exchange in order to ensure that essential raw materials would be imported in preference to other products. As in the case of quota systems, exchange control was, therefore, administered so as to facilitate raw material imports to the detriment of fabricated goods and luxuries.

As exchange control involved the impounding of balances due to the creditor countries, the latter had perforce to resort to bilateral payment and clearing agreements in order to liquidate outstanding debts. The extension of payment restrictions for defensive purposes further weakened the position of the debtor countries, who were compelled to discriminate not only against non-essential imports, but also against individual countries by means of the delayed transfer of sales proceeds, the application of high "official" exchange rates for conversion of payments, whether effected under exchange clearing agreements or not, and by the restricted issue of import licences and exchange certificates.

8. The technical unsuitability of the 1925 Customs Tariff for bargaining purposes had been apparent throughout the abortive pre-1928 treaty negotiations with, for instance, Belgium, Holland and France.

Moreover, in 1932 the reversion to exclusive inter-Commonwealth tariff preferences destroyed the one bargaining counter which did exist. Despite these deficiencies the structure of the Tariff was not revised, partly on account of bureaucratic lethargy and partly because the non-existence of trade agreements with certain countries did not expose South African exports to acute discrimination, prior to the era of elaborate trade restrictions commencing in 1933. Thereafter the need to introduce a revised bargaining tariff was rendered urgent and imperative, although it was not until the institution of a crawfish quota by the French Government in 1934 that speedy action was actually taken.

The outstanding change effected by the passage of the 1935 Customs Tariff Act was the substitution of the double by a triple tariff. The pre-existing minimum duty column was retained as such; the former maximum duty column was transformed into an intermediate schedule of duties; and a schedule of maximum duties was added. Such duties as are on an *ad valorem* basis generally show a margin of 5% between the intermediate and minimum and between the maximum and intermediate rates. The difference is variable, and ordinarily more substantial, in the case of specific duties. The three rates of duty are, however, identical in respect of protected articles and also for products which are admitted duty-free.

By agreement with Commonwealth countries, and in exchange for equivalent reciprocal concessions, duties not lower than the minimum rates of duty may be applied to specified products originating in the territory of any such country and imported therefrom into the Union. In regard to the remaining imports, or all imports, as the case may be, duties not less than the intermediate rates may be applied, and/or the maximum rates. Such preferences as were in existence in 1935 were retained by the application of the minimum duties.

In consideration of the extension of equivalent reciprocal privileges, duties not lower than the inter-

mediate rates may be applied to products of foreign States, specified in an agreement, and exported direct to the Union. The agreement may embrace all imports from the contracting country or it may provide for limited most-favoured-nation treatment, in which event non-specified goods are liable to such maximum rates of duty as have been proclaimed. In regard to contiguous African territories, the traditional proviso, sanctioning the conclusion of agreements for reciprocal free admission of imports, was retained; alternatively, by virtue of the 1935 Act, an agreement may provide for special rates of customs duty on imports from neighbouring countries.

The Tendency towards Bilateral Balancing

9. It is evident that while the intention was to create a bargaining counter and to provide a more elastic treaty system than the preceding arrangement whereby all agreements with non-Commonwealth countries had to be on an unlimited most-favoured-nation basis, the relative legislation did not envisage a régime of extensive discrimination. This inference is based upon three considerations. First, the small margin between the three rates of duty precluded the adoption of a harsh policy of discrimination. Second, the maximum duties were not brought into operation forthwith, but they must be proclaimed in pursuance of specific agreements. Third, in 1934, section 10 *bis* of the Customs Tariff Act was inserted[3] with the object of retaliating against countries which discriminate against South African exports. The relative section provided that additional duties, not exceeding the value for duty purposes, might be imposed by proclamation and submitted for Parliamentary ratification. This punitive measure has never been employed, and it may, therefore, be concluded unequivocally that the inauguration, in 1935, of a moderately discriminatory duty and commercial agreement system marked the rejection of any pretensions to a retaliatory policy by the Union Government in favour of

[3] Act No. 40 of 1934.

amicable negotiations and the extension of positive tariff concessions.

10. In any event, international recovery was in the offing when the operative foreign trade treaty policy was introduced in 1935, and the adoption of a highly discriminatory policy would at that stage have been belated. If the preceding interpretation of the intentions of the promoters of the 1935 tariff amendment is accepted as correct, there is no doubt that the subsequent administration of the treaty powers conferred by the Act was entirely inconsistent.

First, the Union-German Clearing Agreement, concluded in 1934 and renewed annually without modification in principle, established an import : export ratio of one to one between the two countries. Although the Agreement was not concluded in terms of the Customs Tariff Act (and the text of the Payments Agreement has never been made public), the establishment and maintenance of equality between imports from and exports to Germany signify a conversion to the much vaunted Continental desire of bilateral balancing of trade. This system is the very negation of a liberal foreign trade policy. Admittedly, the Union had no option in the matter, excepting in as far as the one to one ratio is concerned, and that is the crucial point !

Second, in pursuance of the 1935 Act, most-favoured-nation trade agreements—of a preliminary character—were concluded with the United Kingdom and the British Colonial Empire (1935), Australia (1935), Ireland (1935), Canada (1935), France (1935), The Kingdom of the Netherlands (1935), Southern Rhodesia (1935), Belgium (1935), Italy (1935) Czechoslovakia (1937) and India (1938). (A revision of an existing Convention with Portuguese East Africa in 1934 provided for most-favoured-nation treatment.) But on the conclusion of the first Agreement with Italy in July, 1935, several maximum duties were proclaimed. The following countries which had previously enjoyed most-favoured-nation treatment in the

Union, in consequence of reciprocal undertakings contained in treaties negotiated by the British Government, were forthwith deprived of their most-favoured-nation privileges, *viz.* Albania, Austria, Bolivia, Brazil, Bulgaria, China, Czechoslovakia, Estonia, Finland, Guatemala, Haiti, Hungary, Latvia, Lithuania, Panama, Persia, Portugal, Roumania, Siam, Spain and Yugoslavia. It may be hazarded, furthermore, that if the Union had not formally acceded to British most-favoured-nation treaties with the following countries, the opportunity would have been welcomed also to inaugurate a discriminatory régime against those of them in which South African products find no extensive market, *viz.*, Argentine (1825), Columbia (1866), Costa Rica (1849), Denmark (1660–61 and 1670), Egypt (1930), Italy (1883), Liberia (1848), Morocco (1856), Norway (1826), Sweden (1654), Switzerland (1855), Venezuela (1825).

Third, the suspicion that the liberal trade treaty policy, embodied in the 1935 amending Act, has been applied not only in order to remove discriminatory restrictions affecting South African exports but also with the object of approaching a stage of bilateral trade balancing, is confirmed by the twin facts that, with the exception of Czechoslovakia,[4] the effective South African maximum tariff rates are still applied to imports from those countries which previously enjoyed most-favoured-nation treatment in the Union in consequence of unilateral undertakings in their treaties with the United Kingdom; and by the fact that Japan and the United States of America, which countries generally show a considerable favourable balance in their trade with the Union, are still subject to the effective maximum duties, and certain of their exports have been damaged more than in the case of any other supplying country.

Fourth, the illiberal tendency in the Union's foreign

[4] In 1937 a reciprocal preliminary commercial Agreement was concluded with Czechoslovakia which re-established the régime of reciprocal most-favoured-nation treatment.

trade policy is further substantiated by the fact that, in 1937,[5] the margin between the maximum and intermediate rates of duty was widened in respect of various tariff items. Finally, it is consistent with the aforementioned inference that the Union's foreign trade policy has been deprived of its liberal basis in that the complete and partial customs unions which obtained with Southern Rhodesia and Portuguese East Africa have been substituted by ordinary most-favoured-nation commercial agreements.

11. It is considered that the illiberal foreign trade policy which has developed rather surreptitiously since 1935, is entirely inappropriate to the Union's long-term interests and ill-adapted to the attainment of a revival in international trade. The principal motivating factor in extending the markets for South African exports by the process of discriminating against those countries which do not approach a position of balance in their merchandise trade with the Union, is contained in the practice of forcing exports in order to maintain the internal price level, for it is apparent that Government may well be over-anxious to facilitate the disposal overseas of the exportable surpluses. It is noteworthy that the persistent adherence to the policy of forcing exports aggravated the depressed level of international prices for foodstuffs so that the uneconomic export position was perpetuated to the detriment of South African interests. Secondly, the latent ideal of arriving at a closer balance between the Union's inter-trade with individual foreign countries has accentuated the prevalent tendency towards bilateral balancing rather than to promote freer trade, in disregard of the fact that the removal of trade restrictions and a return to triangular trade are of vital significance to the Union as an exporter of raw materials and of gold.

Moreover, it was evidently not fully realised that bilateral trade balancing is entirely impossible in so far as South Africa is concerned. About three-quarters of

[5] Act No. 52 of 1937.

the Union's exports consist of gold, and since London is the world's bullion market, other countries hardly ever acquire gold direct from the Union. Accordingly the practice has arisen of excluding gold when calculating the value of some or other foreign market to the Union of South Africa. It follows that South African non-gold exports are always less than imports.

Now, it is obvious that since the Union normally has, say, £30 million worth of non-gold exports to sell, and imports against that goods to the value of £80 million, the Union Government cannot possibly expect all foreign countries to buy South African non-gold exports to an amount equal to our purchases from any such country. On the contrary, as South Africa also has a normal export surplus on trading account of £30 million, while gold exports approximate £80 million per annum, it follows from these figures that (exclusive of gold exports in deference to the official practice) an import : export ratio with individual foreign countries of 2·5 : 1 is very close to the ideal position for the Union. The theory of bilateral balancing is thus entirely inappropriate and unattainable, but even the constant pursuit of so chimerical an ideal has the dangerous effect of casting doubt on the utility of gold as a means of settling international balances.

The Gold Rumours and Commercial Policy

12. Judging from Press reports, the South African delegation to the 1937 Imperial Conference was imbued with the foreign trade philosophy expounded in the preceding paragraphs. Particularly in reference to the United Kingdom, the South African delegates were evidently eager to secure a closer correspondence between imports and exports, and to that end it was intended to erect safeguards which would render preferences on South African exports fully effective. Thus the arrangement "that any concessions given by Britain to South Africa in the bilateral treaty must be extended to other Dominions, is receiving serious attention in South

African circles," while "it is pointed out that Australia and New Zealand, with their depreciated currencies, will have a 25% advantage. Among influential South African circles in London I find a strong impression that any such currency advantages must be taken into account in any arrangement made." [6]

13. However, no new inter-Commonwealth agreements were concluded, as their negotiation was left in abeyance pending the signature of an Anglo-American trade agreement which would involve a limitation of preferential margins. The reason for this changed attitude is the ultimate appreciation by the delegates that trade restrictions perpetuate exchange instability, damage world trade, narrow the market for gold to a degree which shocks confidence in the metal, and deter international long-term landing. The new creed is no doubt that a reduction in the American tariff, which has consistently been an important contributory factor to the mal-distribution of gold holdings, will be very desirable in present world circumstances. For, although it would involve the modification of valuable inter-Commonwealth tariff preferences, the lowered American tariff barrier might not only open the American market to foreign countries, but if the extension of the reduced British and American customs tariffs to other countries is made conditional upon a modification of trade restrictions in Europe and South America, international trade and its accompaniments, long-term capital investment and the acquisition of gold reserves, will be given a tremendous impetus.

14. In acceding to a proposal for a reduction in preferential margins, the Union was seemingly strongly influenced by the weakness displayed by the gold market at the time consequent on dishoarding, the rapid growth of output and the undue concentration of gold reserves in America and Great Britain. The only effective means of easing the gold situation is obviously to initiate a redistribution of gold stocks, and as gold reserves are

[6] *Rand Daily Mail*, May 28th, 1937.

best acquired by means of surpluses on trading account, a revival of international trade, in company with reduced restrictions, presented itself as the obvious long-term solution. On that account the concurrence by the Union in the modification of exclusive inter-Commonwealth preferences is regarded as the wisest decision which could have been made in the international conditions of the time. It remains to be seen, however, whether it will be suitably implemented by negotiating agreements with the numerous countries whose exports are now subject to discriminatory customs duties on importation into South Africa. The wisdom of the Union's choice must also be further verified by enquiring into the probability that the twin desires to regenerate international trade and to achieve a redistribution of gold reserves will meet with success.

15. The classical theory of foreign trade established conclusively and convincingly that, in consequence of climatic differences and variations in the density of populations and in productive capacities, it is extremely profitable for the nations to specialise on the production of such commodities in regard to which they enjoy a comparative advantage. On that account international trade has emerged. Improved transport and communication and the tendency towards a uniform price level caused by the general adherence to the pre-war gold standard, facilitated international trade very appreciably. In addition, unrestricted world trade was fully compatible with the liberal philosophy of the nineteenth and early twentieth centuries, with the result that the economic systems of all important countries were closely adapted to a régime of international specialisation.

In order to establish that international trade must inevitably be mutually advantageous, the propositions of the classical school were proved with the aid of algebraical illustrations. In order that these proofs might be sufficiently elementary (and, therefore, more acceptable), no account was taken of the fact that production is undertaken by numerous manufacturers in

each country and that their respective costs of production differ. It was assumed instead that if a product could be produced at relatively lower costs in one country than elsewhere, the country concerned would specialise in that direction.

It is, indeed, remarkable that economists, who attached an exaggerated significance to their own laws of increasing and decreasing returns, could ever have arrived at an unqualified conclusion of that character. Not only do average national costs of production differ widely from the marginal costs of the different national producers, but if, in conditions of full employment, country " A " has to supply the world with a particular product—while other countries reduce their output—production costs will rise in " A " in accordance with the law of decreasing returns ; *per contra*, costs of production will decline elsewhere. As soon as the new level of costs in " A " and elsewhere correspond, any further expansion of international trade will yield no monetary gain. Normally, any country will, therefore, itself supply part of its own requirements and import the balance. Actually, the faulty expectation engendered by the classical theory was widely accepted as the basis of political action (since politicians are not very refined in their choice of views). In mitigation, it must be observed that the classical theory was originally formulated at a time when there were probably no great differences between average national costs of production and the marginal costs of individual entrepreneurs. But, owing to the subsequent expansion of sales promotion activities and product-differentiation, it is now a common feature that prices of similar products differ continuously without impairing the goodwill enjoyed by the high-priced articles.

This modification of the classical theory of foreign trade found expression in the protectionist movement. Moreover, prior to the Great War, protective policies were generally adopted for economic reasons and in the firm expectation that, in due course, a substantial expan-

sion of output would lead to lower costs. The protective movement was only partly due to the aversion of raw material producing countries to remain dependent on the outside world for manufactured goods. Since the Great War, protection has, however, been adopted increasingly as a method of satisfying national prestige; more recently, of course, the militaristic consideration has supervened. Notwithstanding that development it is still widely recognised that international specialisation and exchange is advantageous and the view is still held that it would be preferable to limit, rather than to extend, protection, and to facilitate, rather than to hamper, international trade.

16. On account of the pervasive influence exercised by the classical doctrines, foreign trade was still of considerable importance in 1929. The disturbance caused by the reduced volume of trade from 1930 onwards and the concurrent drop in values, inevitably therefore, assumed wide proportions and caused an unprecedented impoverishment. The large decline in foodstuff and raw material prices had a particularly adverse effect on Africa, South America, Australia, New Zealand, Asia, Northern, Central and Eastern Europe. The recovery in prices after 1935, however, fortunately contributed towards the removal of the price disparities which developed after 1929, and, if sustained, will mean that the above countries will experience a considerable enhancement of their external purchasing power.

17. The industrial nations sought at an early date to expand their income by increasing internal economic activities. Thus development was fostered by means of low interest rates which facilitated building and other capital investment, extensive public works programmes and armament expenditure. Economic recovery cannot, however, be maintained by merely stimulating internal expansion.

If all countries were of such a large size as the United States of America and Russia, China or Brazil, a higher degree of economic self-sufficiency and a persistent

level of internal activity, would perhaps be attainable with ease. But since a multiplicity of small countries is concerned, a rising level of costs will vitiate part of the advantage which may inhere in an extension of the operative isolationist policies. Any additional impetus to economic recovery must, therefore, derive from an expansion in international trade. Untold opportunities exist for a recovery of world trade since world production has hitherto expanded at a quicker rate than foreign trade.

18. It has been indicated that during the depression and prior to the recovery of raw material prices in 1936, countries producing raw materials and foodstuffs were suffering from a deficiency in external purchasing power which limited their import trade and drained their gold reserves. The depressed level of prices of primary products was clearly of temporary duration and if higher prices are maintained the entire non-industrialised world will prosper. But having regard to the adverse experiences imposed on them by a scarcity of gold reserves, it is considered that they will then display a distinct and lasting preference to acquire larger gold holdings and not to increase merchandise imports only. A relaxation of exchange restrictions will, therefore, be undertaken by them in orderly manner. It is symptomatic of the averred predilection that certain South American countries have already entered the gold bullion market as purchasers. Moreover, economic recovery of the raw material producing countries will also improve their credit standing, leading ultimately to the renewed grant of long-term credit facilities for purposes of internal development. There is, however, every reason to believe that borrowing will not be uncontrolled and excessive as was the case prior to the depression; but even if the volume of lending does not reach the pre-1929 figures, prosperity in the raw material exporting countries is bound to give a tremendous fillip to international trade.

19. The second difficulty which has beset international

trade relates to the restrictive measures adopted by the United Kingdom and more particularly by the other highly industrialised Western European countries. While the increased customs duties to which resort was originally taken could be partially evaded by means of reduced price quotations, there is little opportunity of circumventing quota and exchange restrictions. These measures, therefore, exercise a very effective check on the volume of foreign trade, particularly since they are administered on discriminatory lines by the bureaucracy and because they have a ruthless incidence on the trade in protected articles, fabricated goods and non-essential or luxury commodities.

Although the price disparity and scarcity of foreign exchange which originally prompted the adoption of quota and exchange restrictions are also of a temporary character, and not, therefore, an insuperable obstacle, it is not possible to be optimistic in regard to their removal. Vested interests have arisen in the intervening period which will not lightly tolerate a modification of restrictions imposed for their benefit. In addition, during the years of relative isolation, a powerful political striving arose towards an enhanced measure of national self-sufficiency. In part this movement is motivated by a desire to obtain a diversification of economic activity and a rapid development of internal sources of employment. But the autarchic tendency subsists almost entirely on the armament race and the persistent international tension.

National and ideological antagonisms have never, since the religious wars, been so intense as at the present time. Moreover, it is doubtful whether national friction will in the near future be sufficiently lessened to permit of a return of that degree of international trust which is the basic prerequisite for a resumption of foreign long-term lending and for freer conditions of world trade. Possibly, a revival of world trade and foreign lending will only occur as a reaction against the sacrifice entailed by an autarchic policy, namely, a persistent shortage of

imported raw materials, and high internal prices in consequence of the fabrication of synthetic substitutes and the consumption of expensive domestic foodstuffs which can be produced elsewhere on a large scale and with greater efficiency. This reaction seems within the bounds of probability, having regard to the small areas of chequered Europe. Moreover, from a purely economic point of view, many of the restrictions are probably less essential, having regard to the recovery of agricultural prices. The improved conditions in the raw material supplying countries in which category many Central and Eastern European States are included, will have a similar effect by strengthening the payment balances of those European countries which still adhere to extensive schemes of import and exchange restriction. Similarly, the liberal foreign trade policy of the Roosevelt régime and the corresponding policy to which the British Commonwealth of Nations is committed, will stimulate foreign trade.

20. At the same time it would be imprudent to be too sanguine in regard to a complete revival of international trade on a relatively unrestricted competitive basis, insofar as Europe and particularly the dictatorially controlled countries of the world are concerned. The philosophical basis of present-day international antagonisms relates to such a penetrating and fundamental cleavage of outlook and emotions, that the balance of probability seems to be that it will remain the keynote of contemporary economic policy to stimulate internal consumption and investment rather than to abolish trade restrictions or raise the selective embargo on foreign investments. It must, therefore, be expected that the significance of foreign outlets as compared with internal consumption, must inevitably assume a comparatively diminishing importance. Moreover, the advocacy of large geo-political groups is bound to obtain more support in times of prolonged international tension. For instance, the Netherlands and her Empire has since 1933 been drawn into very close economic relations;

in 1935, at Vincennes, an effort was made to emulate the Ottawa example for the French Colonial Empire; Italy is tending in the same direction by exploiting the Ethiopian Empire; Japan is intent upon adding to her vassal-States; and finally, in Europe, different groups of small countries are seeking closer economic co-operation. Like the British preferential system, these groupings conflict in every way with an international system.

21. The view is held that the decision of the American and Commonwealth nations to facilitate a revival of international trade is well conceived in the interests of the international system which they advocate, and, judged by Western standards, it is indicative of an exalted sense of world-leadership. But the political horizon is so disturbed that the economic approach to a new era of world specialisation in production, of unrestricted international trade and of unimpeded foreign lending, is not likely to produce the desired results within a reasonably short period of time, if at all. While it is of paramount interest to the Union that the movement in question should reach fruition, representing as it does the only effective method of widening the market for and the support accorded to gold as a monetary base, the chances of success are slender in the contemporary world with its unquenchable spirit of national animosity, a growing disdain of materialistic concepts and a disturbing disavowal of the sanctity of Christian ethics.

CHAPTER VIII

INTERNATIONAL TRADE RELATIONS

1. In the previous chapter mention was made of the different countries with which the Union has concluded provisional most-favoured-nation and other commercial agreements. It is now proposed to analyse the specific problems which characterise the Union trade relations with contiguous countries, Commonwealth countries and other foreign States. Owing to limitations of space, it will not be possible to furnish more than a broad outline of the salient features.

The Contiguous Territories

2. Owing to the geographical situation of Basutoland, Bechuanaland and Swaziland, and the close trading relations which had previously existed between them and the other British South African territories, a Customs Union, stipulating for a free interchange of their respective products, was concluded between the Union and the High Commissioner's Territories with effect from July 1st, 1910.[1] In regard to imports, the three territories have a tariff system which corresponds to that of the Union. The South African Treasury, however, undertakes the collection of import duties in pursuance of Section 12 of the Schedule to the South Africa Act, 1909, and quarterly payments are made to the High Commissioner's Territories in proportion to their respective shares in the total customs revenue of the Union and the three territories during the three years preceding the date of Union. Owing to the free interchange in domestic products, exports from Basutoland, Bechuanaland and Swaziland do not retain their origin on entering the Union. On

[1] G.N. 274, July 23rd, 1910.

exportation overseas these export commodities are accordingly treated as if they were exports of the Union, and in that way the High Commissioner's Territories enjoy whatever benefits may be conferred by the treaty obligations of the Union. Finally, freedom of trade also exists as between the Union and the Mandated Territory of South West Africa, while South African commercial agreements habitually embrace South West Africa.

3. In cognisance of the special commercial interests which exist between contiguous countries, the customs legislation of the Union has always provided that the application of special customs duties or duty-free interchange of products may be agreed to with the other countries surrounding the Union. Thus it resulted that Customs Union agreements were concluded in 1910 with the Rhodesias. At the present time a Customs Union is still in operation between the Union and Northern Rhodesia,[2] subject to special arrangements in regard to reimbursement of customs revenue, namely, the Union undertakes the collection of import duties on goods in transit at South African or Northern Rhodesian rates of duty. In respect of domestic exports, the two States reimburse each other to the extent of 15% on manufactured products and, with certain exceptions, at the rate of 10% for other commodities. These payments really serve the purpose of subsidies in order that duty-free entry may be secured. Fixed quantities of tobacco may be exported annually from the one country to the other, while cattle below specified weights may not enter into the inter-trade.

4. In the 1925 agreement between the Union and Southern Rhodesia the pre-existing free trade basis was re-affirmed, but the Union insisted upon the imposition of an embargo on scrap tobacco and Rhodesian cattle below a specified weight. These reservations were accepted by Southern Rhodesia with reluctance, since maize, cattle and tobacco are her principal export industries. The Union undertook the collection of all

[2] Act No. 17 of 1930.

duties, and by paying to Southern Rhodesia 12% in respect of re-exports (which might be lower than the Rhodesian tariff) succeeded in attracting the Rhodesian import trade to Union harbours. Furthermore, a reimbursement of 6% was made on goods of Union manufacture imported into Southern Rhodesia without payment of duty.

The agreement of 1930 retained the principle that it is desirable that trade between the contracting countries be conducted in as free and uninterrupted a way as possible. Several additional restrictions were, however, introduced: ale, wines, cigarettes and motors imported from the other territory would be taxable at the duty leviable on British imports less rebates of 50% in the case of ale and wines, 75% in the case of cigarettes and 10% in that of motor cars. Distilled spirits enjoyed the Rhodesian duty applicable to Great Britain, less 25%. Further, the annual importations from Southern Rhodesia of Virginia and Turkish tobacco leaf were fixed at 2,000,000 lb. and 400,000 lb. respectively, while South Africa could export 150,000 lb. tobacco leaf to Southern Rhodesia. At the instance of the Union, either Government reserved the right to prohibit the importation of cattle below certain weights. Subject to these restrictions, free trade existed and Rhodesian livestock and produce enjoyed the Union's lowest railway rates on similar goods. In recompense for the revenue sacrificed, the exporting country undertook to pay to the importing country in lieu of customs duty: 12% on agricultural and pastoral products; 6% on fibres, textiles, metallurgical products, leather, paper, drugs, oils, glass and earthenware, etc. Re-exports from the Union to Southern Rhodesia were made dutiable at Union rates (less 5% in respect of collecting costs), except that the Union Government had to meet the deficiency should the Rhodesian duties on machinery and other specified re-exports be in excess of the Union rates of duty. A similar arrangement obtained in respect of re-exports from Southern Rhodesia to the Union. Despite the restrictions which were intro-

duced—largely to the detriment of Southern Rhodesia—South African exporters were thus enabled to retain the quasi-subsidised outlet in that country. The competitive position of Beira as an import harbour for the supply of Southern Rhodesia was, however, strengthened in relation to Union harbours, owing to the fact that the cognate provisions of the 1925 Convention were more favourable than those contained in the 1930 agreement.

During the currency of the agreement the commercial relationship between the two countries was severely disturbed by a variety of factors. The Union's adherence to the gold standard weakened her competitive position in the Rhodesian market. The restrictions placed on Rhodesian cattle and tobacco exports in the interests of the Union's low quality tobacco crop and livestock industry were a cause of dissatisfaction to Southern Rhodesia, and it was made more pronounced by the prolonged foot-and-mouth disease embargo on cattle and cereal products. Moreover, secondary industries had emerged in Southern Rhodesia and the free entry of South African manufactures precluded their expansion. While both imports and exports declined in volume, the South African demand for Rhodesian exports fell more rapidly and the expanding unfavourable balance of trade doubtless led to the conclusion that the continuation of a free trade régime was unprofitable to Southern Rhodesia. In the agreement concluded in 1935 [3] the free trade basis was therefore relinquished. Instead, the domestic exports of the two countries were subjected to special duties (consisting of stated rebates off the duties applicable to British goods), while specified competing agricultural products are only admissible under permit, without payment of duty, in the event of a deficiency in the local crop in the importing country. The quantitative restrictions on cattle were retained and the duty-free entry of Virginia tobacco has been made altogether dependent upon the Union's domestic crop in relation to demand. Re-exports are subject to the duty of the

[3] Act No. 14 of 1935.

exporting country, although certain rebates apply in respect of specified goods. National treatment is still accorded mutually in reference to railway rates.

5. In order to apprehend the cardinal points governing the commercial relations of the Union and Mozambique, it is advisable to present an historical account. The gold-mining industry has since its inception been dependent upon an adequate supply of low-paid Native labour. Owing to the abandonment of recruitment in Central Africa, on account of the high mortality rate of the Tropicals, the repatriation of the Chinese labourers from 1907 to 1911, the aversion of South African Natives to that type of employment, and the suitability of Mozambique Natives for that purpose, Mozambique Territory has throughout remained an important source of supply of Native labour. The Portuguese Authorities have, therefore, been in the position to make the grant of Native labour recruiting privileges contingent upon the extension of compensating concessions by the Transvaal and Union Governments.

In the 'eighties the South African Republic found itself without a seaport, and, being desirous of minimising the British influence, embarked upon the construction of a railway line to Lourenco Marques, a port under non-British control. Although it was in the mutual interests of the Republicans and the Portuguese to develop trade *viâ* Lourenco Marques, that port did not have its own hinterland upon which to depend for traffic, so that a share in the Transvaal trade was essential for the prosperity of the port and the railway connection. It is, therefore, obvious that the Portuguese would make the privilege of recruiting Native labour in Portuguese Territory dependent upon the diversion of traffic intended for the South African Republic to her seaport. To this condition the Republic readily acceded, as the availability of an alternative harbour also precluded collusive exploitation by the Cape and Natal interests, while the Z.A.S.M. itself benefited in that for every ton transported *via* Lourenco Marques to Johannesburg the Company

received revenue for 312 ton-miles as against revenue on 177 miles of her railway track from the Natal border and on fifty miles from Vereeniging.

In order to implement the undertaking to divert sea-borne traffic to Lourenco Marques, the Z.A.S.M. established differential rates which yielded an advantage to that harbour over Durban and the Cape ports in connection with traffic destined for Johannesburg and its environs. The outcome was a wholesale re-direction of inward traffic to the Transvaal competitive zone (defined at the 1905 Inter-Colonial Conference as the area enclosed between Vereeniging, Pretoria, Klerksdorp, Springs), so that, between 1895 and 1898, the share of the Cape ports fell from three-quarters to one-third, while the shares of Durban and Lourenco Marques rose to one-third, from nil and one-fourth respectively.

At the conclusion of the Anglo-Boer War the Colonial Government was faced with the traditional difficulty of obtaining an adequate supply of Native labourers to permit of the resumption of gold-mining (the Natives having returned home in 1899 at the first shot). The political aspiration to secure a non-British outlet for the Transvaal had, however, disappeared in the meantime, while, in contradistinction to the pecuniary interests of the Z.A.S.M. in directing traffic *viâ* Lourenco Marques, the amalgamation of the Transvaal and Orange Free State railway systems into the Central South African Railways as well as the formation of a single national system after Union, enhanced the interests of the railways in making full use of the Cape and Natal systems and ports. Hence the only residual economic interest of the Union in the port of Lourenco Marques arose from the fact that it is the natural harbour for the Eastern Transvaal and possesses a purely geographical claim to sharing in the traffic of the gold-mining region. But in order to re-establish the gold-mining industry, Lord Milner was compelled to conclude a *modus vivendi* between the Transvaal and Mozambique in December, 1901, whereby in return for the pre-war privilege of recruiting Native

labour, the retention of the pre-war railway tariffs and goods classification on the Lourenco Marques-Johannesburg line was guaranteed.

The pre-war preferences accordingly remained in force, but altered conditions had rendered them unsuitable to maintain the *status quo* in regard to the percentual distribution of traffic for the competitive area, so that in 1908 Lourenco Marques had doubled her share of one-third at the expense of the other ports. Thus, when the Transvaal Government finally decided in 1909 to replace the *modus vivendi* by a treaty, the privilege of recruiting Native labour in Portuguese East Africa, which was doubly necessary owing to the increased dependence on Mozambique Natives consequent to the repatriation of the Chinese, was made conditional upon the diversion to Lourenco Marques of 50–55% of the seaborne import traffic to the competitive zone by means of periodical adjustments of railway rates. Free trade was also assured between the Union and Mozambique.

The agreed percentages of the traffic to the competitive area were totally upset by the disorganisation of shipping services during the Great War, and in terms of the Convention, improved competitive chances were assured to Lourenco Marques in the general railway traffic revision undertaken in 1920. However, owing to the large coal export trade *viâ* Lourenco Marques which developed during the war and on account of repeated failures of the Portuguese Port Authorities to load the coal cargo regularly, the Union Government opened negotiations in 1922 on the basis of a proposal to secure joint control of the Lourenco Marques harbour and railway by the Portuguese and Union Governments. The Portuguese indignation at this proposal was profound, and upon the Convention being denounced by the Union in 1923, a temporary arrangement remained in operation until 1928, when a very adverse agreement was finally arrived at with great difficulty. The Portuguese attitude had altered remarkably in the intervening years. Since the war-time fillip to the Transvaal coal trade suddenly

disappeared in 1923, the Portuguese Government demanded a guarantee in 1925 that, in addition to sea-borne imports, an increased volume of coal exports be diverted to Lourenco Marques. The resulting deadlock ended in a Portuguese order of 1927, which threatened the termination of Native labour recruiting facilities.

The new Convention of 1928 limited the number of recruited Natives on a sliding scale of 100,000 in 1929 and 80,000 in 1933, as the Portuguese voiced their intention of increasingly employing these Natives at home. The Union agreed to compensate the Portuguese Government by diverting to Lourenco Marques 50–55% of the traffic imported into the competitive area bounded by a line connecting the goods traffic stations serving Pretoria, Springs, Vereeniging, Klerksdorp, Welverdiend, Krugersdorp and Pretoria. The free trade era which ended in 1923 was, however, not resuscitated in full, although in respect of a large number of specified agricultural and manufactured products free entry from the one territory into the other was stipulated. For the rest, reciprocal most-favoured-nation treatment was agreed to, excluding, as is usual, inter-Portuguese, intra-Commonwealth and Union-Protectorate tariff privileges from the scope of that clause. Mutual exemption of transit traffic from transit, export, re-export or other duties was also agreed to.

Prior to the revision of the Convention in 1934, the mining labour position in the Union underwent important changes. The Protectorates have always supplied a fair proportion of the Native labour requirements, the Natives being allowed to enter the Union freely, since the principles applied in the administration of the Protectorates are generally in conformity with those applied by South Africa towards its Native population. The prevalence of drought conditions in the Union and in the High Commissioner's Territories in 1932–33, the curtailment of industrial activity, the closing of the diamond mines and the generally destitute state of the Natives in the Reserves, greatly augmented the supply

of Natives from these areas. This resulted in a displacement of Portuguese Natives, so that only 50,000 (or 30,000 less than the maximum Convention quota) were in employment in the gold mines at the time, connoting a lesser degree of dependence upon the Portuguese Native supply immediately prior to the revision of the Convention. The bargaining situation of the Union had been further strengthened by the repeal of the prohibition relating to Natives domiciled north of 22° latitude South. While the decline in the death-rate of the Tropicals on the mines warranted the repeal, its timing immediately before entering into negotiations justifies the conclusion that it was also intended for tactical reasons, although the Tropicals had in any case been gravitating towards the gold mines long before on account of the absence of border supervision.

Since the Portuguese East African exchange position is eased by the payment in Union currency in Mozambique of one-half of the Native earnings after the first 234 shifts, the Portuguese Authorities on their part were eager to check the decline in recruitment. Accordingly the amending Convention authorised recruiting to a maximum of 80,000, and, if the Mines agreed, a minimum of 65,000. Since the Union's bargaining position was relatively strong, the guaranteed tonnage of merchandise imports into the competitive area was reduced to 47·5%; although lower, this percentage does not represent a reduction in tonnage, having regard to the remarkable industrial and mining expansion in the Southern Transvaal and the accompanying growth in total imports. The reduction in the guaranteed proportion of the sea-borne traffic *viâ* Lourenco Marques implies a lessened concentration of traffic on a relatively short section of the South African railway system, and a consequent fuller utilisation of the other coastal links. At the same time, importation *viâ* Lourenco Marques is not necessarily uneconomic, as the locational advantage of that port should in itself serve to attract an appreciable volume of the Transvaal import trade. Moreover, in

part the railway preferences only serve to counteract the detriment suffered by Lourenco Marques on account of a differentiation in sea freights by the Conference Lines of 2*s.* 6*d.* per ton in favour of Durban. Of course, traffic reaching that port from the East and *viâ* the East Coast shows a similar differentiation against Durban, and the advent of the Italian Lines strengthened the position of Lourenco Marques *vis-à-vis* the Union's ports. These factors, coupled with the enlarged petrol traffic consequent to the transfer of a bulk storage scheme from Durban to Lourenco Marques, had previously engendered an expansion of merchandise imports *viâ* Lourenco Marques, equalling 60% of the competitive traffic in 1933–35. The Railway Administration has since lessened the percentage by means of reductions in traffic rates 1 to 6 in respect of Durban, East London and Port Elizabeth.

A further important alteration in the Union's relations with Mozambique is the excision of the list of duty-free products by the 1934 Amending Convention, owing to the competition experienced by the corresponding Union industries. Accordingly the trade between the Union and this important neighbouring territory is now on the usual most-favoured-nation basis, devoid of any special concessions.

6. It is regrettable that an agitation by the relatively unimportant tobacco, groundnut, oil-expressing and banana-growing industries should have been allowed to cause a cessation of free trade between the Union and the two neighbouring countries, Southern Rhodesia and Portuguese East Africa. The intensification of the mutual economic interests of contiguous countries is so important that the restrictive policy should be reversed at the earliest opportunity by a return to partial free trade. Meanwhile the Union's trade with Northern Rhodesia is increasing, having almost doubled between 1929 and 1936, while the value of imports, exports and re-exports passing between the Union and the two other territories has been halved.

Inter-Commonwealth Preference

7. The British Commonwealth is a cohesive political entity, and on that account a measure of economic unity has been engendered between the constituent countries, although the degree of co-ordination has not remained constant. Thus, in mercantilist times, the interests of the Colonies were subsidiary and supplementary to those of England. The resulting commercial favouritism between them was, however, swept aside with the triumph of free trade, and, insofar as South Africa is concerned, the withdrawal of the preference on Colonial wines in 1860 signified the removal of the last relic of mercantilism.

8. Soon afterwards the idea of reciprocal preferential treatment was broached, and at the first Colonial Conference held in 1887, Onse Jan and Sir Samuel Griffith of New Zealand suggested some form of preference in order to counteract territorialism within the Empire. In 1896 preferences were introduced unilaterally by Canada, and at the Imperial Economic Conference of 1902 a resolution in favour of the principle of preferential trade was passed, in pursuance of which Lord Milner persuaded the British South African Customs Union on its formation in 1903, to grant a general preference to British products and to goods of reciprocating British Possessions. Reciprocity was instituted with Canada on October 1st, 1904, with Australia on October 1st, 1906, and with New Zealand on January 1st, 1907, while the Irish Free State and numerous British Colonies later came within the ambit of the scheme, with the exception of India which has never been included.

The British Government, however, remained aloof, and the attempts of the Tariff Reform League in 1907 and 1910 to convert the electorate proved unsuccessful. In 1915 the British free trade policy was slightly modified by the imposition of the McKenna duties, and at the Imperial War Conference of 1917 the close dependence of the Empire as a result of the Great War resulted in the

acceptance of imperial preference. Many tariff preferences were, therefore, introduced by Great Britain in 1919. The extension of the system contemplated by the United Kingdom in 1923 did not, however, materialise owing to a change of Government. When Mr. Baldwin took office again shortly afterwards it was felt that total inaction would be a breach of faith. The value of the promised preferences was the eupon funded and expended by the Empire Marketing Board in a campaign to establish a voluntary consumers' preference for Empire products amongst the British public. Moreover, certain preferences which were within the power of the British Government were stabilised for a period of ten years in 1926.

Meanwhile it had been shown by the Board of Trade and Industries [4] that the preferential rebates granted by the Union far exceeded the rebates received. The Customs Tariff Act of 1925 therefore placed inter-imperial preference on a *quid pro quo* basis by limiting the preferential rebates to a number of selected articles in regard to which preferential treatment was actually required. Reciprocity has since remained a feature of the preferential tariff arrangements. Australia, however, was not agreeable to the limitations imposed and denounced the reciprocal customs agreement with the Union as from June 30th, 1926, on that account, although the necessity of protecting Australian wage standards against Native competition was also mentioned in Parliamentary debate.

At the 1931 Imperial Conference the Union's delegation laid a further series of preferential proposals before the British Government. It was, however, agreed to defer negotiations until the Ottawa Imperial Economic Conference convened for 1932, when the British Government, having meanwhile adopted a policy of protection, accepted the system of exclusive inter-Commonwealth preferences in full. It was unanimously affirmed at Ottawa that each State had the right to determine the

[4] *Report* No. 46.

extent of the preference accorded. Although Mr. Havenga declared that "South Africa has never objected to the treatment its commerce has received at the hands of Great Britain, it has never complained of the spirit manifested by the United Kingdom in matters of trade, nor has it been querulous of the fact that preferential treatment was not always reciprocated," the determinative right agreed to actually implies that protective duties may be freely imposed, and that reciprocity must be real and not lacking in balance. Indeed, the principle incorporated in the Ottawa Agreements of balancing advantages given and received has been a not unimportant factor in connection with the tendency to bilateral balancing which thereafter made its appearance in South Africa's foreign trade policy. The post-1932 preferential régime, like the arrangements concluded by the Union Government in 1925, is thus predominantly a business bargain, founded upon an objective view of national circumstances which definitely enjoy priority in relation to Commonwealth trade. It is true that total annihilation of the old influences—sentimental affinity and common defence—has not occurred, and they cannot be abandoned in their entirety in any lasting political entity; but these extra-economic considerations possess a varying significance in the different constituent States.

9. The recovery of the Union's import trade after 1932 was beneficial to all supplying countries. The extension of the preferential system, however, brought a larger portion of total imports within the scope of tariff preferences—in 1936, 39% of British and 15% of Colonial imports into the Union enjoyed preferential margins, compared with 34% and 9% in 1932. The new or enlarged preferences, of course, enabled the United Kingdom and the Colonial Empire to pre-empt a growing portion of the preferential sector of the South African market; thus, between 1932 and 1936, British and Colonial suppliers increased their share in that market from 53% to 59%, and from 7% to 40% respectively. The beneficial effect of the preferences is

further demonstrated by the fact that in connection with the non-preferential category of South African imports, the British share declined from 44% to 40% between 1932 and 1936; it is evident that in regard to non-preference goods the Union's foreign suppliers registered gains.

In the case of the Union's export trade, the statistics also exhibit the rather obvious result that the exclusive tariff preferences diverted those products receiving preference to Commonwealth markets (Britain alone increasing her purchases from 72% in 1932 to 77% in 1935); but, owing to the manifold trade restrictions in Europe, a corresponding tendency is discerned for other non-gold exports (Great Britain increasing her percentage share in this group from 24 to 31 between 1932 and 1935). Moreover, the volume of exports enjoying tariff preferences in the United Kingdom rose from £5·7 million in 1932 to £7·7 million in 1935, representing 27% and 29% of total non-gold exports respectively; if the preferences enjoyed elsewhere are brought into account, the percentage will probably be increased to 35%. It may be added that about one-half of the Union's non-gold exports to Great Britain were on a preferential footing in 1936, and some 90% of the exports to Canada.

10. In appraising the Ottawa Agreements, it is possible, from an international point of view, to emphasise that they intensified tariff and other trade restrictions in non-Empire countries and caused extensive damage to world trade. But, in adjudging their direct utility to the Union, it is necessary first to consider certain popular misconceptions which give rise to a critical propensity, some of which—it would appear from the tenor of the newspaper reports during the 1937 Imperial Economic Conference at London—even found adherence in the Union's Delegation.

The usual criticism levelled against the export trade policy of the Union, particularly in those instances when exportation is only feasible with the aid of preferential margins in Empire markets, is the fact that returns are

often less than the price to the South African consumer. This involves a free gift to the foreign purchaser, but it is hardly an objection against imperial preference as such, except, indeed, insofar as the safeguarded Empire outlets contributed towards the adoption of a national economic policy which encompasses the maintenance of a high price in the Union and distress sales of surpluses overseas. But that policy is encountering a weakened adherence, as there is a growing pre-occupation with internal consumption, investment, and employment creation, which will progressively lessen the relative significance of foreign outlets, including those secured by means of exclusive Commonwealth preferences. This interpretation is not indicative of a general aversion to foreign trade; but it is so averse from its more palpable uneconomic forms. For although exportation of a surplus often serves to produce or maintain low average costs, the search for economies of production should not be allowed to exceed the advantage reaped in that way—despite the estimable humanitarian sentiment which it might involve.

Antagonism towards inter-Commonwealth preferences has also resulted on account of the low, often unremunerative, prices realised. The argument in question assumes two forms: First, that competing suppliers have frustrated the expectation concerning improved returns by resorting to currency depreciation. Second, the fact that the preferences accorded to South Africa are shared by other Empire countries has led to cut-throat competition in the United Kingdom (and in Canada to a lesser degree) between Empire producers. It is impolitic for the Union to declaim against the frustration of tariff benefits by currency devaluation, since, if there is one currency which has been wilfully undervalued, it is the South African pound. Regarding the second version of the complaint, it is obviously not an ideal arrangement that tariff concessions should be shared with, and at times pre-empted by, other Empire countries producing the same products. The undesirable

nature of this type of arrangement is particularly self-evident if, as is believed to have happened with dairy produce and eggs in England and with oranges in Canada, the Union had to undertake the bargaining and make the reciprocal concession. But the Union was not a unique sufferer owing to the circumstance that the principle of granting exclusive preferences to the Empire jointly found a general application at Ottawa. Thus, the Canada-Union agreement of 1932 stipulates that South Africa will automatically receive whatever special customs concessions may be accorded to other Empire countries in respect of the products covered by the agreement—with the result that South African brandy is ousting the Australian product in Canada. Similarly, at Britain's request, British preferences in the Union may be extended to the British Colonial Empire—although no use has been made of the relative clause. Furthermore, Canada and the United Kingdom share certain preferences in the South African market with varying effects on their respective export industries. There can be no doubt that the principle in question is inviolable as the grant of concessions to the exclusion of other Empire countries would have serious political repercussions and cause infinite dissatisfaction, no less in other Dominions than in the Union itself. Furthermore, an extension of trade restrictions by the inauguration of really exclusive tariff preferences would further hamper world trade and weaken the world economic system. It must be added that criticism of the Ottawa Agreements on account of the low prices received in Empire markets is largely due to a failure to attach due importance to the fact that the three-year period after 1932 was one of international depression. True enough, prices of nationally produced goods were often purposely kept at a higher level than the corresponding free world prices. But it would have been quite untenable to expect that the Empire countries should similarly have bolstered up the price level of imported Commonwealth articles.

A further consideration which exercises an influence

on the Union's attitude towards imperial preference is its repercussions on our trade relations with other countries. There was a time—as the original preference clause of the Union-German Treaty of 1928 indicates—when both the South African and foreign Governments were anxious to see that inter-Commonwealth tariff concessions were not exclusive. Although the exclusive nature of the imperial preferential régime has since secured general acceptance and international recognition, the fact is not altered that the system exercises an influence on the trade relations subsisting between the Union and non-Empire countries. Their trading interests in preference goods have, as a general rule, been jeopardised, and it must be determined to what extent imperial preferential commitments served to hamstring the Union, having regard to the post-1932 Continental practice of balancing foreign trade bilaterally. It is possible to answer categorically that imperial preference has not seriously hampered the Union's foreign trade negotiations—for a reason which is unique to South Africa. Trade negotiations are really only difficult if the Union is purchasing less from the country concerned than that country buys from South Africa. For, in that event, it will insist that the Union accord special concessions which would result in larger imports from that source and a closer balance between imports and exports, before South Africa is in return given adequate import quotas, adequate foreign exchange facilities, or what not. This is a position with which the Union is seldom confronted owing to the large volume of gold exports which are customarily excluded when calculating the value of some or other foreign market, so that an import : export ratio of 3 : 1 is an approach to the ideal position. In these circumstances it is difficult to give instances in which the Union's negotiations with a foreign country have been hampered on account of an excess of exports over imports due to a diversion of trade with the assistance of Commonwealth tariff preferences. France is really the only important sup-

plying country possessing an unfavourable trade balance with the Union. Superficially the same applies to Belgium, but that is merely on account of the importance of Antwerp as an entrepôt and a diamond-cutting centre. The Union also has a favourable trade balance with Southern Rhodesia ; and even with the United Kingdom if gold is included (as is the case in the published statistics). But since the United Kingdom is not an important competitor with either France or Southern Rhodesia, their unfavourable trade balances with the Union are not due to imperial preference.

The one outstanding defect of adherence to the system of imperial preference is that it places too large a proportion of the Union's export interests in one basket. It is not implied that the higher returns received by Union exporters are reprehensible, as they appear to be distinctly advantageous and in themselves justify a neglect of other foreign markets. In static conditions, when the capacity and standing of the British and other Empire markets and the volume of Union exports would alike be unchangeable, it would be a most welcome arrangement if, in consequence of the Union's membership of the British Commonwealth of Nations, it is possible to concentrate on Empire markets and obtain better prices than non-Empire producers. But in our actual world, characterised by uncertainty, it is taking an uninitiated gambler's risk to concentrate exports unduly on the British market. This view is not dependent for its validity upon any pessimistic preconception that the British Empire is threatened with extinction, but on the actuarial fact that, by spreading marketing risks, export trade gains appreciably in stability. To disregard this rule is not merely reckless but is quite unpardonable if it occurs despite the knowledge that Africa and the East, and Europe to a lesser extent, are capable of enormous development which would result in an enlarged capacity to import foreign products. The Union's policy should, on this view, have the very distinct objective of not forcing exports on Great Britain

to the exclusion of other outlets. Moreover, the objective indicated is appreciably strengthened by reflecting that, for military reasons and for the sake of national economic stability, Great Britain is likely to persist in the present policy of attaining a larger measure of agricultural self-sufficiency. Finally, any doubt which might still exist as to the wisdom of the objective, which it is thought should underlie the Union's foreign trade policy, must surely be dispelled if it is recalled that, in the very near future, the British demand for foreign products must in any event increase at a diminishing rate, or even fall, owing to the fact that the British population will soon cease to grow.

Having enumerated certain weaknesses of imperial preference—and having exploded some fictitious ones—it is necessary also to mention the factors which have a contrary import. Gold derives its value from its monetary use—the non-monetary demand equalling only 5% of the present annual world output of approximately £250 million. But gold movements are largely accounted for by international capital transactions and purchases for monetary purposes are almost solely in the hands of national Treasuries and the different Exchange Equalisation Funds. Moreover, some three-quarters of the existing gold stocks are held by France, Great Britain and the United States, and, except for the British Equalisation Fund which buys gold extensively, America is now in practice the only purchaser which is taking gold freely instead of goods. The limited number of gold producers has the effect of damaging the old argument that South African gold exports cannot be credited to individual countries. For during the past six years British capital has been invested in gold (largely newly mined) to the extent of probably 60% of the entire world output during the period. Now, it seems clear that, if British funds have been so tied up, it is rather unreasonable to insist that the United Kingdom should, at the same time, have absorbed a volume of South African merchandise exports which bears a closer corre-

spondence to Union imports from Great Britain than is actually the case. In 1936 the proportion of imports and exports between South Africa and the United Kingdom was 3.2 : 1, while if a liberal allowance of 25% is made for re-exports, etc., it equalled 4.3 : 1. While the former ratio is satisfactory, the corrected one is not, except, however, if the phenomenal volume of British capital invested in gold purchases is taken into consideration.

A most valuable advantage, to which reference has already been made in a different connection, is the fact that, with the aid of preferences, South African exporters to Empire countries obtain larger returns than accrue to their foreign competitors. It is, of course, possible to argue that these artificially high returns merely have the effect of distorting the economic structure of the Union by causing over-investment in the industries concerned. Admittedly that is a danger against which statesmen should always guard lest, for instance, the history of the sugar industry be repeated elsewhere. But against the differential returns secured in that way there can be no possible objection. Particularly is this conclusion affirmed if it is borne in mind that the Union is a high-wage country and its export industries, therefore, require a high-priced market—such as the United Kingdom and Canada conveniently offer. Moreover, while it has been contended that in order to achieve long-run stability it is desirable to foster an export trade also to Europe and America and particularly to the developing Eastern and African markets, it is apposite to note that, during the years 1932 to 1936, the Union was fortunately placed in having markets at its disposal in those countries which first showed signs of economic recovery. Furthermore, there is no apparent reason why Great Britain and Canada should not, for a considerable period, retain their relatively high level of prosperity. For this reason it is suggested that, even if 60% of South African exports is concentrated on the main Empire markets, the Union can be well satisfied

that its export position is a sufficiently stable and diversified one.

Attention has previously been invited to the increasing tendency towards national self-sufficiency, due to military and nationalistic reasons and a desire to insulate national prosperity against the phenomenal instability which has become so characteristic of our world economy. To push the tendency in question to an extreme would, however, involve the sacrifice of the positive advantages of international specialisation in production. In order to combine the best of the two worlds, there has accordingly emerged a powerful movement for the formation of large geo-political groupings. The Union again appears to be very happily placed in being able to participate in an imperial preferential régime which embraces the most prosperous and largest single market for the products which the Union is peculiarly adapted to supply.

Yet it was decided at the London Conference, 1937, to restrict the ambit of inter-Commonwealth preferential commitments in a valiant effort to regenerate international trade, to resuscitate long-term capital movements and, incidentally, to widen the demand for gold. In these objectives the Union has a vital interest. In the preceding chapter the possibilities of their attainment were analysed; although the prospects gave no cause for optimism, whatever progress is made in the directions indicated will be to the benefit of the Union. In financial circles the programme has been well received, and since favourable expectations are apparently entertained for its successful achievement, the Union is being afforded a breathing space during which time the presently disturbing state of affairs can be remedied. For who can regard with equanimity a situation in which a single export item, accounting for 70% of the total, is a product the demand for which is both precarious and capricious? It is only hoped that, in the course of scaling-down tariff preferences, care will be displayed to lessen the friction by stabilising, rather than diminishing, such uneconomic exports as sugar and maize to

England and Canada, in the dual expectation that improved international prices will facilitate a gradual transition and that the persistent efforts to stimulate absorption by the local market will similarly assist.

It may be mentioned, finally, that the existing inter-preferential arrangements between the Union and the British Colonial Empire are most unsatisfactory. The Union shares whatever preferences may, for the time being, be accorded to any other British country. All the territories have inaugurated a system of tariff preferences for a smaller or larger number of products, except the mandated territories, Kenya, Uganda, Nigeria, the Gold Coast and so forth, which are precluded by international agreement from according preferences. The Union, on its part, only extends a tariff preference on raw coffee, in respect of which East Africa is the principal beneficiary (regardless of the fact that owing to the Congo Basin arrangement South African products may not receive preferential treatment in East Africa), and on asphalt and bitumen in bulk, imported largely from Trinidad. It appears to be desirable that the Union should accord preferences to those parts of the British Colonial Empire which are important purchasers of South African produce and extend valuable preferences. In that category are Ceylon, the Federated Malay States, the British West Indies and certain West African territories. There are, however, serious difficulties in the way. Most of the Colonies are situated in the tropics and preferential treatment of tropical products will, therefore, benefit most of them—sometimes undeservingly. Secondly, tropical products are generally admitted under rebate of duty or at nominal rates of duty, since they constitute indispensable industrial materials, taxation of which is undesirable. Another objectionable feature of the present arrangement is that the Union only benefits from such preferences as are extended to other Empire countries. It is abundantly clear that this can only be in conformity with South African requirements by pure accident. In principle and also in practice it is, there-

fore, an undesirable method, as the Union has no say in the designation of the products which receive preferential treatment. It is not known whether the Colonial Empire will in future apply a modified régime of tariff preferences. Any such development at this juncture would be regrettable, as the Union has only commenced to explore the Colonial markets and tariff preferences would have been a considerable help in securing a footing.

Foreign Countries

The Union-German Treaty and Clearing Agreements

11. Germany is habitually regarded as the second largest customer of the Union and South-West Africa; although large fluctuations occur, imports and exports tend to correspond and normally total £8–10 million. The 1928 most-favoured-nation treaty between Union and Germany was therefore designed to safeguard the inter-trade, but the ensuing depression detracted from its value as customs duties were totally subordinated to other methods of control. Indeed, as a result of the credit collapse of 1931, the subsequent standstill agreements and other restrictions on foreign payments, the importance of Germany as an outlet for exports declined. Early in 1933 an attempt was made to stimulate German exports by making blocked balances available for payment purposes at a discount of 20–25% off the daily exchange rate and "additional" exports could thus be financed with depreciated marks to the extent of 25–75% of their value—depending upon the terms of any authorisation by the Devisenbewirtschaftungstellen. While this expedient had its value, the continued weakness of the exchange situation coupled with Germany's dependence on foreign raw materials led to a scheme of Control Offices to sanction imports and ration the foreign exchange required in payment. In order to prevent speculative purchases prior to the date when the Control Offices began to function, the importation of wool,

cotton, hides and skins and several other products was prohibited between March 24th and May 5th, 1934. Purchases effected prior to that date could, however, be carried through. The wool embargo was later prolonged till May 31st; then till June 30th. Ultimately, in September, 1934, some twenty-five Control Offices commenced to function in Germany.

The Union's wool export season extends from September to May. The wool embargo in particular, therefore, affected the Union adversely, as Germany is habitually a large buyer of South African wool—both directly and by the importation of tops from Bradford and other semi-manufactured wools from France; at the auctions at the end of the season, German buyers are also very active. But the exchange restrictions had a similar adverse effect on other lines of the Union's export trade. For instance, the German market for wattle bark and extract was closed, whilst, in June, 1934, the conclusion of a Clearing Agreement with Argentine opened the way for the entry of competing quebracho extract.[5] The reaction on the part of South African exporters is obvious—and, insofar as wool was affected, the concern was fanned by the much publicised efforts to increase Germany's own supplies by the use of cellulose fibres.

The resulting pressure on the Union Government led to the conclusion of a Wool Clearing Agreement between South Africa and Germany with effect from January 1st, 1935, on the basis that *devisen* accruals for German exports to South Africa be earmarked for the payment by German importers of South African wool purchases. The trade with Germany in non-wool exports accordingly languished; although it continued on the basis of compensation arrangements between firms in the two trading countries its scope was limited, since the exchange accruing from Union purchases of German exports after January 1st, 1935, had been assigned to importers of wool. The obvious solution was to extend the pro-

[5] *Cf. Rand Daily Mail*, September 11th, 1934.

visions of the wool clearing agreement to other selected Union exports. This was done by a supplementary agreement dated May 8th, 1935, and the comprehensive character of the payments arrangement has since been continued.

Regarding the working of the agreement, it has, of course, become commonplace that in order to transcend the impediments to free transfer of Rm. proceeds of South African exports to Germany, the Rm. are used to reimburse German exporters to South Africa; *per contra*, the sterling due under bills drawn on South African importers by their German creditors is employed in payment of South African exporters to Germany. The agreement, therefore, works to an import : export ratio of 1 : 1, as the debits and credits to the account must balance.[6]

The actual procedure followed is that Barclay's, the Standard and the Netherlands Bank accept the Rm. invoice-values of their purchases from German importers on the due date, while the German exporters hand to the Reichsbank the bills drawn on South African importers (as the Gold Discount Bank in Berlin has a monopoly of exchange business). On receipt of the sterling remittances, it is sold to the three commercial banks, who use the sterling exchange to reimburse the South African Reserve Bank for advances made by it for payment, on due date, of the South African exporters, while the Reichsbank employs the Rm. proceeds to pay the German exporters.

There is no reason why the Rm. receipts and the sterling accruals should balance daily. If the Rm. deposits exceed the sterling remittances, a balance, due to South African exporters, is blocked, and if there is a

[6] The trade statistics do not show a precise equivalence. The debits and credits are c.i.f. values, while South Africa's trade statistics reflect home consumption or f.o.b. values for imports and an f.o.b. notation for exports. Further, the financial year of the agreement does not coincide with the statistical year. In addition, a surplus of *devisen* accruals is carried forward while a deficiency is wiped out before the accounts under the next Agreement commence. It is added that during the boom in imports the surplus was substantial.

short-fall, a surplus of sterling exchange awaiting conversion into Rm. for payment to German exporters is held by the Reichsbank. Moreover, except in the event of the adoption of the normal import : export ratio of 2·5 : 1, the balance will generally be a credit—representing amounts due to South African exporters—owing to the concentration of wool exports, which bulk heavily in the agreement, in the few months of the export season. The existence of such credit Rm. balances raises the question whether their transfer in payment of South African exporters should or should not await an adequate accrual of sterling exchange. While it is characteristic of many exchange clearing agreements that exporters are paid in order of chronological priority, it was agreed at the very commencement that a delay in the payment of South African shippers is undesirable. Accordingly, they are paid on due date by the South African commercial banks with London sterling advances made by the Reserve Bank under Treasury guarantee. These advances are adjusted in later months when *devisen* accruals, in turn, exceed German purchases of Union products. The Reserve Bank loses interest on the sterling advances, and since investment of the equivalent blocked Rm. in Germany has not been undertaken owing to the need of liquidity, it is reimbursed by the Union Government at the average British Treasury bill rate for the period involved. It is apparent too, that the blocked credit balances are subject to exchange fluctuations as Rm. deposits in settlement of sterling debts are converted at the Berlin rate of exchange on the date of deposit. Special arrangements have been concluded between the two Governments in this connection, as the German importer cannot be held liable for any subsequent exchange loss due to delayed conversion of his Rm. deposit ; neither would a South African exporter attach much value to the German market if his funds were liable to such exchange depreciation.

It is evident that South African importers and exporters conduct their German trade in the normal way, as the

transfer and exchange difficulties are smoothed out by the contracting Governments. There is no control of the Union's purchases of German goods, but since imports and exports must coincide in order to produce a balance between receipts and payments, private compensation transactions are prohibited while South African exports are restricted to the expected value of imports from Germany. To that end the two Governments negotiate as to the total amount of exports from the Union to Germany and the allocations in respect of individual export commodities. Import permits are then issued by the relative German Control Offices to German importers, so that their purchases do not exceed the stipulated amounts.

The first Agreement terminated on November 30th, 1935, the second twelve months later and the third on the same date in 1937. The financial year was thereupon altered in order that the entire wool export season, commencing in September, may be covered by any future Agreement. Previously a portion of the allocation for wool had to be reserved for use in September to November, as the entire amount might otherwise be expended during the former season ending in May. The total amount of the several Agreements has risen progressively, *viz.*, £2·9, £3·6, £4·1 and £4·6 million. The allocation for wool has grown throughout from £2·4 to £3·25 million in the first and fourth Agreements, and so have the amounts earmarked for those raw materials, manganese, karakul pelts, hides and skins, in respect of which Germany finds herself in dire need. Although these export commodities preponderate, a persistent effort has been made to find a footing in Germany for many minor South African exports, such as fresh, dried and canned fruit, fruit juices, crawfish, butter, wattle bark and extract, aloes, and so forth.

France

12. France usually vies for the second or third place in a list of the Union's foreign outlets. Direct exports

alone vary between £3 and £4 million, whereas imports from France are generally below £1 million per annum. French commercial policy has a protectionist bias, and in company with the remainder of Europe, especial emphasis was placed in France on the stimulation of agricultural production in the period 1925–29. The price decline which commenced in 1929 accordingly found the French Authorities obliged to consolidate the agricultural development which had been attained. The immediate effect was a rather comprehensive increase in customs duties. In the preceding years many French customs duties had, however, been bound in commercial agreements. For instance, in 1931 the French Minister of Commerce asserted that between August, 1927, and July, 1928, duties on 5,064 of the 7,028 tariff items had been so consolidated. The emergency value of the customs tariff having thus been greatly impaired, the more elastic, speedy and effective instrument of quota systems was introduced in 1931. The adoption of the quota system was altogether opportunistic and calculated to safeguard French industry against competing low-priced foreign supplies; it was, moreover, widely believed that it would be a temporary expedient, to be relinquished as soon as world prices recovered (and that was thought to be imminent, as the deflationary movement was originally interpreted as a short-term event).

The collapse of the international gold standard intensified and protracted low world price levels, and simultaneously the French quota system found its span of life increased and its scope widened. Moreover, French industry was suddenly exposed to the full force of the world depression, as the French Government retained the gold content of the Poincaré franc. The quota system was thereupon applied more strictly, and in order to give effect also to the monetary programme of the Bank of France. It thus became invested with the dual function of protecting local industry and of reducing imports of non-essentials in order to maintain the French balance of payments, and thereby the external valuation

of the currency unit. But an instrument which serves to restrict imports is also a means of facilitating exports. Accordingly the quota system soon assumed the dominant characteristic of a bargaining device. It is in this respect that South African exports were affected adversely. Prior to September, 1933, quotas had been applied extensively, but it was customary to grant to each supplying country, without demand of recompense, the full share mathematically attributable to it of the globular quotas. But with effect from October 1st, 1933, all existing quotas were reduced to 72% of their former size, and 25% was allocated to each country, the balance of the reduced quotas being redeemable wholly or partially by the various supplying countries by the grant of reciprocal concessions to France.

It is an illusion to think that the quota system took the place of monetary imposts in French commercial policy. Rather, by an admixture of these two methods, untold variables in the art of discrimination were evolved. Technically the French customs tariff must be classified as a double-column tariff with discrepant maximum (or general) and minimum rates of duty. A provision also exists enabling the application of other (and higher) rates of duty by decree—and it has by no means been allowed to fall into disuse. Moreover, owing to the French advocacy of reciprocity (in contradistinction to unlimited most-favoured-nation treatment), all imports from a contracting country are not generally dutiable at the minimum rates; the tariff concessions may also take the form of a percentage reduction off the general duty rates, and non-specified products may be subject to the maximum duties. While the flexible duty structure is a complicating factor, there are other discriminating imposts which hamper imports into France. An import tax is imposed, with differential *ad valorem* rates for crude, semi-manufactured and manufactured products, which may by agreement be superseded by a uniform rate of tax. An exchange surtax, of a countervailing nature, was applied against some countries with

depreciated currencies prior to France's departure from the 1926 parity on October 10th, 1936, when the rates of customs duty were simultaneously reduced selectively by 15%, 17% or 20%. Variable surtaxes are levied by weight on most foreign products of non-European origin when imported into France from a European country. Finally, import licences for goods subject to quota can only be obtained on payment of a special tax, varying according to the nature of the goods.

When, in 1934, South African canned crawfish and preserved crawfish tails were placed under quota and only one-quarter of 72% of imports during 1933 was allotted to the Union gratuitously, it was imperative to enter into commercial negotiations in order to prevent the ruin of an industry whose major outlet is in France. A preliminary trade agreement between the Union and France was concluded in February, 1935, and after the Union's bargaining position had been somewhat strengthened by the adoption of the triple tariff, it was supplemented in August, 1935. The provisions of the temporary agreement are reproduced in summary.

The Union Government undertook to:

(i.) Prevent the export and internal sale of, and the importation of non-French wines and brandies under French geographical nomenclature, after the lapse of specified periods;

(ii.) Embody the aforementioned provisions in a contemplated comprehensive trade agreement;

(iii.) Waive the right to preferential treatment in Canada in respect of certain light wines and champagne;

(iv.) Induce the South African canneries to purchase French tin plate;

(v.) Consider the conclusion of a more comprehensive trade agreement, involving the grant of tariff concessions to France as well as an agreement relative to the Union's trade relations with Madagascar;

(vi.) Apply the maximum duties on certain cotton,

rayon and woollen piece goods, new hats, caps, bonnets and beads, while subjecting French imports to the intermediate duties, and guaranteeing that the list of effective maximum duties will not be extended to the detriment of French goods.

In return, France accorded the following concessions to the Union:

(i.) The minimum tariff was applied to deciduous fruit and to dried fruit (other than prunes) throughout the year, as also to oranges and lemons from June 1st to October 30th;

(ii.) A reduction of 15% off the general tariff on prunes;

(iii.) In August, 1935 (in exchange for the maximum duties referred to in (vi.) above, which were proclaimed by the Union), most-favoured-nation treatment was assured to imports of hides and skins, raw pelts, wool and woolled sheepskins, Angora hair, asbestos and manganese;

(iv.) Percentages of the globular quotas for deciduous fruit and crawfish were allotted to the Union for 1935, 1936 and 1937. The period of validity of import licences was also stipulated.

It will be observed that the provisional agreement neglected to accord the minimum duty to crawfish, and made no stipulations regarding the amount of, and the nature of the treatment in regard to, taxes and charges other than customs duties; neither did it stipulate the treatment to be accorded to the Union in the event of the enforcement of quotas in respect of quota-free products (like oranges, which were subsequently placed under quota). The agreement was to expire at the close of 1937, but was prolonged for a further period pending the completion of negotiations. It may be noted that the Union occupies a difficult bargaining position in relation to France, owing to the large favourable balance of trade and the French policy of balancing trade bilaterally.

JAPAN

13. With the exception of a Gentleman's Agreement facilitating the entry of Japanese businessmen, no trade agreement is in operation with Japan, and imports from there are subject to the effective maximum duties. The activities of Japanese wool buyers at the coastal auctions during the trade dispute between Australia and Japan in 1936–37 temporarily removed the adverse trade balance (annual imports approximated £3 million formerly as against exports of £½ million), which might have been invoked in defence of the discriminatory treatment of Japanese products. Not that the lack of balance is a convincing argument, for it must be reiterated that, owing to the composition of the Union's exports, it is an arithmetical impossibility for every country supplying the Union with merchandise to purchase in exchange an equal amount of non-gold exports.

Japan is an important outlet for raw materials, including base minerals, although exports of hides, skins and wool will probably predominate for years to come. There is, therefore, good reason for not impairing her custom, but if Japan were accorded general most-favoured-nation treatment it is not difficult to visualise the emergence of a total lack of balance and a curtailment of the Union's capacity of purchasing European exports, owing to the fateful competitive potentiality of Japanese industry. The 1935 three-line tariff was introduced for bargaining purposes, principally with the United States and those European countries which, in addition to the United Kingdom and Canada, offer a high-priced market for the Union's luxury class of food exports. The operative discriminatory tariffs, however, mainly benefit the European textile industries to the disadvantage of the Japanese, and if Japan were to share all the intermediate duties, the Union's bargaining power will deteriorate instantaneously. At best, limited most-favoured-nation treatment might, therefore, be accorded, in which event the South African proletarian consumer will derive

greater benefit from the fact that Japan is the cheapest exporting country in the world.

Italy and Sanctions

14. The Union's trade relations with Italy have been influenced very appreciably by sanctions. Imports and exports declined steeply, but shipments to Italian Possessions rose from £6,000 in 1929 to £146,000 in 1935 and £289,000 in 1936.

On October 19th, 1935, pursuant to the decisions of the League regarding the Italian-Ethiopian dispute, the League of Nations Committee for the co-ordination of measures against Italy adopted the economic and financial sanctions presented to it by the Committee of Eighteen.[7] The Governments were asked (i) to annul any restrictions on the supply of armaments to Ethiopia and to prohibit the direct or indirect exportation of arms, ammunition and implements of war to Italy or to Italian Possessions; (ii) to prevent the extension of credit to or the raising of capital by Italy and Italian Territories; and (iii) to prohibit the importation of goods other than consignments *en route* or paid for prior to the date of the prohibition, originating in Italy or Italian Possessions, while forbidding also the exportation to Italy and her Colonies of transport animals, rubber and certain metals and minerals. The Union Government forthwith took steps to give effect to the several measures.[8]

South Africa does not conduct an export trade in armaments, and although little financial business is transacted with Italy other than through London, the prohibitions prevented any possible evasion. In regard to Italian imports into the Union, the obvious outcome of the operative prohibition was an instantaneous decline after the excepted consignments had gained admission. The following comparative import statistics are submitted in elucidation:

[7] *Monthly Summary of the League of Nations*, October, 1935.
[8] Proclamations 219, 240 and 241 of 1935, and 106 of 1936.

January–June, 1934	.	£416,551
January–June, 1935	.	£494,799
January–June, 1936	.	£49,026

The payment of the Italian shipping subsidy of £150,000 per annum was not discontinued, as it was interpreted as not falling within the scope of the sanctionist measures. It is observed from the proceedings of the Co-ordination Committee, the Committee of Eighteen and Sub-Committees that the matter was not submitted for a ruling or for the purpose of authorising its exclusion, as happened with exemptions sought by other sanctionist countries. Neither did the spirit in which the sanctions were adopted deter the Meat Control Board from stimulating the exportation of beef for use by the Italian soldiers. Thus, during the twelve months ending in June, 1936, frozen beef was supplied to the extent of £250,000. Moreover, prior to the promulgation of the export prohibition, the Union's supply of mules had been depleted by exportation to Eritrea and Somaliland to the value of £19,000.

In virtue of the Italo-British Treaty of 1883, to the terms of which the Union has acceded, most-favoured-nation treatment is extended reciprocally. By an exchange of Notes on May 21st, 1935, Italy was also assured of the application of the maximum tariff on imports of the following products derived from countries not in receipt of most-favoured-nation treatment or preferential concessions (principally to the detriment of the Japanese textile industry): cotton, rayon and woollen piece goods, new hats, caps and bonnets, glassware, citric and tartaric acids and beads. When sanctions supervened, Italy retaliated against the sanctionist countries by directing purchases as far as possible to neutral States. Moreover, owing to the exchange shortage during the Ethiopian campaign outstanding debts were blocked. Hence, when the sanctions imposed on November 14th, 1935, were terminated on July 15th, 1936, the Union was faced with the problem of re-establishing her export trade to Italy in wool, hides and skins

and industrial minerals. Thus exports amounted to a mere £141,270 during the first six months of 1936. The outstanding pre-sanction debts were subsequently liquidated by the purchase of such Italian goods as were specified by decree for that purpose, while current transactions were also conducted on a private compensation basis.

15. In consideration of a subsidy of £150,000 per annum, an Italian shipping service was established in 1934. The sailings provided are: a fast four-weekly connection *viâ* the West Coast with Marseilles; a monthly service *viâ* the Suez to the Mediterranean ports; and a semi-fast and a slow service *viâ* the West Coast. Although payment of the subsidy was continued during the sanctionist régime, it is evident that the benefits conferred on Italian-Union trade by the provision of suitable shipping facilities were minimised by the train of events which commenced at the end of 1935. But apart from this setback, the direct shipping connections have facilitated shipment to France and South-Eastern Europe, and they have especially assisted in promoting the export trade to West and East Africa (mainly in provisions, perishable products, wines, spirits, beer and mining requisites). As the level of consumption in the different African States is still low, no formidable expansion in trade has occurred subsequent to the inauguration of the direct refrigerated shipping services. But having regard to the extensive development work which could be undertaken by traders, the Union's Assistant Trade Commissioners for East and West Africa, and by several African Administrations, it may be said unhesitatingly that the shipping services have been indispensable in the pursuit of the very laudable objective of an enhanced two-way trade between the Union and the non-contiguous African States.

Other Countries

16. Finally, it calls for mention that the Union's inter-trade with Holland and Belgium has been

regularised by provisional most-favoured-nation trade agreements, and when comprehensive agreements are eventually concluded it may be expected that more favourable duties will be secured for cereals and foodstuffs, whether perishable, dried or prepared. In particular, the agricultural crisis monopolies, inaugurated by the Netherlands, have operated to the detriment of the Union's trade in cereals. In regard to Scandinavia, Sweden bids fair to become a very remunerative outlet for citrus and deciduous fruit, while a market also exists for wines and spirits, fruit juices and canned foods in Denmark, Finland and Norway. In regard to South-Eastern Europe, the lack of shipping facilities and the importance of London, Antwerp and Hamburg as *entrepôt* centres will continue to thwart attempts at an enlarged direct trade. Concerning South America, the operation of exchange restrictions and unfavourable conversion rates as well as the priority enjoyed by British, American and Continental firms have precluded any appreciable volume of exports. In India, the Straits Settlements, the Netherlands East Indies and Hong Kong, South African wool, hides and skins, wines and spirits and perishables have here and there encountered a good demand—sometimes with the aid of preference, as is the case with liquor sold in Hong Kong and Malacca. The proximity of Australia and the United States of America, however, coupled with the low purchasing power of the Eastern peoples, militates against an expanded trade in foodstuffs.

17. Although some progress has been made in supplying the United States with wine, spirits and deciduous fruit, for which a vast high-priced market is available, direct exports still fluctuate in the vicinity of £1 million per annum, compared with imports valued at £15–17 millions in prosperous years. In adjudging the Union's trade balance with the United States it is necessary to bear in mind the peerless character of American motor vehicles, electrical machinery and proprietary articles. It would clearly be inadvisable,

and in grave conflict with consumers' interests, to apply discriminatory duties against these products. Moreover, while American purchases of South African foodstuffs and raw materials of agricultural and mineral origin are unnecessarily and disconcertingly small, the absence of expansion is not due to any unfavourable differential imposts on South African goods, despite the fact that the maximum duties in force in the Union bear heavily on American textiles. Furthermore, American gold purchases provide the very basis of the Union's internal prosperity, and it is submitted that the investments undertaken in support of gold attain such stupendous figures that in equity the Union's other exporters should not be unduly critical of their failure to secure a large sale in America. Similarly, the diamond industry is entirely dependent on the lavish expenditure of the American nation.

CHAPTER IX

WAGE AND LABOUR CONDITIONS

Discrepant Wage Rates

1. It is an outstanding characteristic of wage and labour conditions in South Africa, which has been commented upon successively by the Wage and Labour Commission, the Industrial Legislation Commission, the Customs Tariff Commission as well as other enquiring bodies, that whereas skilled labour enjoys employment conditions comparable with such high-wage countries as Australia and the United States, the unskilled workmen are very poorly remunerated. The result is a very substantial gap between the wage rates of skilled and unskilled labour, the former group embracing the European, Indian and Coloured groups and the latter consisting mainly of Native workmen. Judging from data classified by the Industrial Legislation Commission,[1] it appears that semi-skilled wages vary from 30% to 75% of skilled rates, and unskilled rates between 15% and 30%.

2. Accordingly, the Customs Tariff Commission remarked [2] that

"the evidence which we have received is nearly unanimous on the point that the wage rates payable to European labour in South Africa are much higher than those paid in countries which compete in the South African market, and for this reason, protection is an essential condition for the continued existence of local industry;"

per contra,[3]

"in some industries the same wage rates are paid to all employees

[1] U.G. 37, 1935, pp. 15–16.
[2] U.G. 5 of 1936, para. 122.
[3] *Ibid.*, paras. 116 and 117.

engaged on the same class of work, irrespective of race. In such cases the tendency seems to be for Europeans, Coloureds and Asiatics to get the work. Generally speaking, however, the wages paid to Natives for the types of industrial labour in which they are employed are much lower, but it was represented to us . . . that in comparison with the more intelligent labour available in some low-wage countries of the East and Eastern Europe, Native labour gives no competitive advantage. . . . In such industries as lend themselves to a large employment of Native labour, the chances of competing on an even footing with European countries is generally much better. These are, generally speaking, industries of a heavy type in which muscular exertion is of more importance than skill, judgment or initiative."

3. Owing to the amplitude of the gap between skilled and unskilled wage rates [4] and the low incomes of the peasant class, the bulk of the Native population and one-fifth of the European inhabitants maintain a very inadequate standard of living, if they are not doomed to chronic poverty. The result is malnutrition, poor housing and a deplorable mental and physical inferiority. In the ensuing portion of the present chapter it is proposed to outline the legislative and administrative endeavours to secure an improvement in wage and labour conditions, indicating also the methods whereby the State has sought to improve the relative position of the unskilled and impoverished European workers.

Employment Conditions

4. Conditions of employment, insofar as concerns heating, lighting, ventilation, protective clothing and other structural and hygienic matters, hours of work, and the employment of juveniles and females, are subject to the provisions of the Factories Act, No. 28 of 1918, which regulates the approval and registration of factories and provides for an adequate inspection service in order to ensure that the Act and regulations are observed. An amending Act, No. 26 of 1931, imposed more rigorous conditions in order to safeguard the welfare

[4] Professional remuneration reaches a very substantial level.

of employees in accordance with civilised international standards.

In regard to structural and hygienic conditions, the building boom which accompanied the economic revival dating from 1933, served to supplant many antiquated structures by modern buildings which are calculated to add to the convenience, health and safety of workers. An increasing interest is also manifest in industrial welfare activities and first-aid facilities. Since 1931 occupiers of factories are required to provide seating facilities for women whose work is performed standing, in order to enable them to rest whenever the opportunity occurs. While this injunction is generally well observed, it is an interesting example of the difficulties which attend the application of uniform principles in circumstances which are characterised by diverse conditions, that Indian female employees nevertheless retain their preference for squatting on the ground.

Complete records require to be maintained in order that the conditions of employment of juveniles and females, as well as adult males, may be checked by the inspectorate. The normal labour week originally consisted of fifty hours, but has since 1931 been reduced to forty-eight. Similarly, daily hours of work have been reduced from nine and a half to eight, while a break of one hour has been substituted for the interval of half-an-hour after five hours of continuous activity. In the event of a five-day week, a movement which has found favour, it is possible to lengthen the workday by one and a half hours.

Since 1931 the minimum age of juvenile workers has been increased from twelve to fourteen years, subject to a satisfactory medical report. The stringency of the examination is well evidenced by the fact that, on account of ill-health, refusal to employ juveniles under sixteen reaches the high figure of 25% of the prospective entrants. Moreover, children under sixteen may not be employed between 6 p.m. and 6 a.m., although in exceptional circumstances employment until 9 p.m.

may be authorised. But in order that this privilege may not be abused, overtime is limited to three hours per day for not more than three successive days, and for twenty days per annum. Similarly female employment is restricted to the hours between 6 a.m. to 7 p.m., subject to three additional hours' overtime for not more than three successive days and for sixty days per anñum. While overtime is customarily authorised in the seasonal milling, food preserving, clothing and footwear establishments, written authorisation from the inspector is a pre-requisite and his permission is dependent upon acquiescence by the workers concerned. A further restriction is that for one month prior to, and for two months subsequent to, confinement, women may not be employed in registered factories. Moreover, in order to accommodate necessitous cases, confinement allowances are paid by the State. Judging from the paltry amount of £3,000–£5,000 paid in that way, and having regard to the studious avoidance of any reference to the applications which are not granted in the recent *Annual Reports* of the Secretary of Social Welfare, a very liberal attitude does not appear to be adopted. It is understood also that, in the Western Province, the payment of confinement allowances to Coloured females is considered in the light of the official opposition to inter-racial promiscuity.

Juvenile Workers

5. In reference to juvenile employment, the attitude of the State is not however purely negative and directed at the prevention of exploitation. In order to facilitate the entry of juveniles into employment, the voluntary Juvenile Affairs Boards which arose between 1915 and 1917 were given an official standing by Act No. 33 of 1921. Composed of equal numbers of employers and employees, Juvenile Affairs Boards have been established in eleven large urban areas, while with the aid of small grants, Juvenile Advisory Boards have been set up by local effort in other centres; further, "Armesorg"

Committees have been established in co-operation with the Church in other towns. Voluntary boards operate in some centres on behalf of Coloured children. These bodies assist in placing juveniles in such vacancies as may occur and, therefore, serve the practical purpose of acting as employment bureaus. Over 10,000 applications are registered annually by the Juvenile Affairs Boards, and they place more than half of the applicants in employment. These bodies also advise parents and juveniles on matters affecting employment, and assist in removing evils which afflict juvenile employment. They have, furthermore, been instrumental in establishing the operative system of apprenticeship.

6. After the inception of mining on the Witwatersrand, the Union was dependent upon overseas countries for skilled artisans and experienced miners. The wartime experiences had however emphasised, both in the industrial field and in regard to the supply of skilled workmen, that it was *prima facie* desirable that South Africa should cater for her own needs to an increased extent. This implied the proper training and education of the South African youth, and after thoughtful deliberation, the machinery requisite for that purpose was provided by the Apprenticeship Act of 1922, which applies to specified industries in which minors may not be employed for more than four months without being indentured.

The Act deprived the trade unions of the assumed power to stipulate the ratio of minors to journeymen in certain skilled trades. Instead, Apprenticeship Committees, consisting of an equal number of representatives of the employers and employees, and acting under a chairman appointed by the Minister of Labour, were brought into being to determine the appropriate conditions of apprenticeship and to recommend the registration of contracts to the Inspector of Apprenticeship, on the understanding that the prospective employer is capable of providing an adequate training. As a counterpart of the apprenticeship system, the Technical College and Trades School system was instituted, and the

apprentices are required to attend the technical classes. Apprenticeship contracts may also be concluded under the Industrial Conciliation and Wage Acts, but the departmental policy is to encourage the utilisation of the machinery provided by the relative statute.

The Apprenticeship Committees have been criticised on account of their laxity, the absence of a uniform national policy, the infrequent establishment of Committees on a national basis, the undue length of the period of training in industries where mechanisation has diminished the skill of the craft, while, during the depression, the Act and regulations placed a serious strain upon employers who had to pay the full remuneration to apprentices, despite the prevalence of short time.

In order that apprenticeship contracts may take full cognisance of changes in technique, the Industrial Legislation Commission made the important recommendation [5] that the designated trades be scrutinised periodically with a view to reducing the period of apprenticeship, or, if necessary, to suspend the operation of the Act in industries where semi-skilled workmen are capable of performing the work. Owing to the influx of adult males to the urban centres, the Commission also gave special attention to the question of their training. No legal obstacle exists against indenturing adults, but the relative Act does not apply to their contracts, as adult employees are subject to the terms of wage agreements and determinations. Self-evidently, however, since their earning capacity during the period of training does not warrant the payment of the prescribed rates, adults are only likely to be apprenticed if they are exempted from the wage rates in question. The Commission accordingly lent its support to a system of exemptions with a view to facilitating the proper training of adults.[6]

Many thousands of skilled artisans have, however, been trained in consequence of the facilities established

[5] *Op. cit.*, para. 728.
[6] *Op. cit.*, para. 804.

under the Apprenticeship Act, and in regard to its beneficial consequences the Industrial Legislation Commission arrived at no uncertain conclusion [7]:

> "If the Act did not exist, it can be accepted that more minors would be employed, but with this difference that a large proportion of them would in all probability not receive a training which would enable them to follow a skilled trade. This would mean that industry in the Union would have to look to other countries for the craftsmen, the very position that the Act was designed to remedy."

Collective Bargaining

7. The principle of collective bargaining between employees and employers has been practised in the Union since 1924, under the ægis of the State and with the help of machinery and a procedural system established by statutory enactment. The relative Act, No. 11 of 1924, was repealed in 1937, being substituted by Act No. 36 of 1937. The operative statute does not, however, materially disturb the pre-existing machinery, procedure or guiding principles; it is in most respects a replica of the earlier provisions, but embodies also the administrative experience gained in the preceding twelve years as summarised in the report of the Industrial Legislation Commission of 1935. If anything, the new Act is an endeavour to further eliminate evasion in order that the principles which underlie collective bargaining may be realised more fully.

The common objective of the repealed and operative Act is to eliminate or solve disputes between capital and labour by means of collective bargaining, which process also equalises the bargaining strength of the contending parties. Accordingly, provision is made for the establishment of trade unions and employers' organisations. These bodies must be registered, resulting in some control over their objects and an insight into their membership, so that the assurance is obtained that they will be sufficiently representative to undertake the regulation of

[7] *Op. cit.*, para. 799.

employer-employee relationships. It should be noted that while more than one registered trade union existed for the same area of a particular industry during the currency of the 1924 Act, the Industrial Conciliation Act of 1937, authorises the Registrar to refuse to register a second organisation in respect of an area of a trade for which a representative union has already been registered. However, the registration of unions which cease to be representative may be cancelled. It may not be stipulated in an agreement that employees should or should not belong to a particular trade union, and it is also of fundamental importance that the three most degraded labour categories, namely, farm labourers, domestic servants (in private households) and pass-bearing Natives, fall outside the scope of the Act.

Employers, or their registered organisations, and trade unions, may form an industrial council with the object of preventing or settling disputes in their industry and of regulating matters of mutual interest. If the industrial council is sufficiently representative of the undertaking and the area in respect of which it proposes to operate in conformity with the Industrial Conciliation Act, it can secure registration. The registered Council, consisting of equal numbers of representatives of employees and employers, may thereupon commence to function in regard to all labour matters.

In the absence of an industrial council, and in the event of a dispute between employers and employees, any party to the dispute may apply to the Minister for the establishment of a conciliation board, consisting of an equal number of employers and employees, and invested with the function of endeavouring to settle the dispute in question. The conciliation board is an *ad hoc* body and is discharged upon the completion of its task, or upon reporting that it has failed to settle the dispute and, possibly, recommending that the matter at issue be submitted to arbitration. A conciliation board, unlike the industrial council, therefore, lacks continuity and the benefit of experience, while it is also deprived

of the goodwill which results from protracted contact and continuous negotiations. Moreover, it is not in a position to apply any agreement which may be reached and cannot modify it from time to time in the light of its results.

In order to facilitate negotiations, a mediator may be appointed to assist in the settlement of a dispute which is being considered by an industrial council or a conciliation board. Both a council and a board may also decide to refer the issue to an arbitrator, or to an even number of arbitrators representative of the disputants and an umpire assisted or unassisted by assessors.

An agreement approved of by not less than two-thirds of the representatives present at a meeting of an industrial council or conciliation board, and an award resulting from arbitration, are submitted to the Minister. While an award is final and binding upon the parties concerned, an agreement may be declared binding in respect of the parties thereto at the discretion of the Minister.

It is an established principle that, despite the validity of any other method of differentiation embodied in agreements arrived at in pursuance of the powers conferred by the Industrial Conciliation Act, no differentiation or discrimination on the basis of race or colour may be made. This is in consonance with the concept of "civilised labour," which forms the basis of the labour policy in the Union, and is indicative of a standard of living rather than of a racial standard. The Act does not however apply to Natives subject to the pass laws; but if an industrial council or conciliation board reports that the observance of an agreement will probably be frustrated by the employment of Natives, the Minister may, in his discretion, apply the agreement also to persons not embraced by the Act. In a number of cases this provision has been brought into operation.

In regard to essential services, including the supply of light, power and water, sanitation, passenger transportation and the extinguishing of fires, arbitration is compulsory in the absence of voluntary settlement of

disputes, while strikes or lock-outs are forbidden. Similarly, strikes and lock-outs are prohibited during the currency of an agreement or award; neither may they occur legally before a dispute has been considered by an industrial council and reported on less than thirty days ago; nor if application has not been made for the establishment of a conciliation board and the Minister has not refused to grant the application nor delayed the appointment of the Board by more than twenty-one days; nor if the Board has not failed in its objective; nor, finally, after a decision has been taken to abide by an arbitral award. It may be observed that the fixation of time limits in 1937 removed the theoretical power which the Minister possessed in terms of the 1924 Act, in which no such time limits were prescribed, to withhold the legal right to strike by purposely acting in a dilatory manner. Owing to this limitation of the legal right to resort to measures of industrial warfare, it is evident that the number of strikes and man-days lost on that account should necessarily have diminished. But the facilities for negotiation and settlement have doubtless also contributed towards the maintenance of industrial peace. For these reasons there is an inverse correlation, which is only disturbed by the frequency of resignations in times of depression between the membership of trade unions and the number and duration of industrial disputes—rather than the positive correlation which would obtain if collective employee organisations were regarded as serving an essentially militant, though ineffective, purpose. Thus the average trade union membership rose by about 20% between 1919–24 and 1930–35, while the average annual number of man-days lost through industrial disputes fell from 390,000 to 14,000. The success of the system of collective bargaining may also be gauged from the extensive scope of industrial council agreements, even though it may in part denote an aversion to arbitration by their preponderance over conciliation board settlements and arbitral awards. Normally some 40,000 employees are

affected by industrial council agreements, while conciliation board agreements and arbitral awards do not generally affect more than 10,000 workers.

It may be mentioned that victimisation is prohibited by the Act and every effort is made to prevent evasion of the wage-regulating instruments. Since the entering into force of the 1937 Act employers are required to hold a current certificate of registration, non-possession of which constitutes an offence; and, in the event of non-observance of court orders under prosecutions in terms of the Act, the registration certificate is liable to cancellation. Finally, if an employee would be prejudiced in securing employment if not exempted from the scope of any wage agreement or award, he may be so exempted by an inspector on account of ill-health, old age or other satisfactory reason. In respect of the wage agreements in force on March 31st, 1935, 769 exemption certificates were then in operation. As this number is less than 1% of the total number of employers and employees to whom the agreements applied, it is evident that the practice of issuing exemption certificates is not an overt method of evasion but a means of imparting the necessary measure of elasticity to the collective agreements.

Authoritarian Wage-Fixation

8. The Wage Act, No. 27 of 1925, was also repealed in 1937 and replaced by Act No. 44 of 1937 without impairing the principles involved or effecting changes other than those necessitated by the experience gained during the preceding years. After the passage of the Industrial Conciliation Act of 1924 it became evident that, in regard to the unorganised workers, especially urbanised Natives, and in the interests of organised workers who were unable to agree with the respective employers' organisations in reference to the formation of industrial councils, additional machinery was necessary for the regulation of wage and labour conditions. In the circumstances resort was had to the alternative method of regulation whereby a statutory body prescribes wages and

employment conditions after careful investigation of the industry concerned.

A Wage Board, consisting of three members, was accordingly created, while provision was also made for divisions of the Board, consisting of at least one member and one or two temporary members who may be representative of the employers and employees concerned in the trade which it is proposed that the division should investigate. On instruction by the Minister, or on application to it by any representative number of employers and employees or by their representative organisations, the Wage Board may conduct an investigation into a trade or section of a trade, with a view to reporting on the conditions of employment and upon the class of employees to whom remuneration should equitably be paid at rates which will permit of the maintenance of civilised standards of life. Subject to consultation with the Board of Trade and Industries, and having due regard to the cost of living, privileges enjoyed by workers, as well as the economic effects of any proposed recommendation upon the employers in the relative trade, the Wage Board submits a recommendation in regard to all labour matters in that trade.

The Board may not differentiate or discriminate on the basis of race or colour, and neither may the Minister do so in his instructions to the Board. Neither may the Board undertake an investigation into a trade which is subject to an agreement or award in terms of the Industrial Conciliation Act, while if a representative trade union and employers' organisation is in existence in the particular trade the Board may only proceed to function on instructions from the Minister. Although the Wage Act is intended to embrace the workmen who are not in a position to utilise the facilities created by the Industrial Conciliation Act, it is noteworthy that it does not apply to farm labour and domestic servants in private households.

The Minister may at his discretion publish a Wage Board recommendation and invite objections. After

consideration of the objections by the Board, the Minister may make a determination in conformity with the Board's recommendation (as amended), which has the force of law in respect of the stated trade and class of employees. The scope of the determination may be extended, modified or suspended in part or in full, provided that any replacing agreement or award under the Industrial Conciliation Act may not be less favourable to the general body of employees.

As in the case of the Industrial Conciliation Act, employers require to be registered, while evasion of the terms of a wage determination as well as compliance with any order of court, is checked by inspectorate and scrutiny of partnership agreements. Victimisation is similarly forbidden, and the legal power to resort to strikes and lockouts is governed by the provisions of the Industrial Conciliation Act germane to the matter. In order to prevent hardship, exemption certificates are granted by the inspectors in circumstances identical to those envisaged by the Industrial Conciliation Act. The Wage Act has been vigorously administered and has contributed materially to the economic welfare of unorganised workers, of whom about 75,000 are affected by the resulting determinations.

Workmen's Compensation

9. Prior to 1935 employees were entitled to claim compensation from their employers in the event of accidents or fatal injury, in accordance with a prescribed scale or by action under the common law. There was, however, no certainty that the employer would be in a position to pay the compensation. The principal feature of the Workmen's Compensation Act of 1934 is, therefore, that insurance of employees against accidents is made compulsory, while compensation is payable in conformity with a prescribed scale which differentiates between temporary, permanent and fatal injuries. The Act has a very extensive scope, embracing Europeans as well as employees of other races, although compensa-

tion to Native employees occurs on a lower scale. Moreover, compensation is also payable in respect of disablement and death resulting from certain scheduled industrial diseases. Comprehensive provision had, however, been made years ago for the payment of benefits on a high scale to workers suffering from miners' phthisis, which is the principal occupational disease in the Union. A noteworthy result of the large financial commitments involved has been that the mines have spared no expense in combating the incidence of miners' phthisis.

Unemployment Insurance

10. The latest development in the Union's industrial legislation was prompted by the difficulties experienced in relieving unemployment during the world depression. To avoid the total dependence of unemployed workers on the State, the Unemployment Benefit Act of 1937 provided for unemployment benefit funds, consisting of contributions by employers and the eligible employees and of a Government grant amounting to one-quarter of their contributions in certain industries or specified geographical divisions of them.[8] The rate of contribution varies according to the income-group in which a contributory falls, and a similar differentiation is made in regard to the rate of benefit. The scales set out in the Act may, however, be altered in order to maintain a proper balance between the available funds and the applications for benefit which may reasonably be expected during a period of severe unemployment. The amount of the unemployment benefits which are payable is not unlimited. Thus a contributor is only entitled to receive benefit if he has paid not less than twenty-six weeks' contributions during the two years immediately preceding his unemployment, while he is not so entitled for the first week of unemployment (excepting if he was similarly unemployed not more than eight weeks previously), and neither may he receive benefit for more than twenty-six weeks in any unemployment period of fifty-two weeks.

[8] The chief secondary industries and gold-mining have been selected.

No means test is applied except if the applicant is in receipt of an adequate pension from public funds, but provision is made to guard against abuse by applicants who refuse to accept suitable work, who leave their employment voluntarily or lose it through misconduct. A further essential is that any beneficiary must be capable of, and available for, work.

The desirability of making provision against involuntary unemployment is well established, but the Act in question is singularly defective. First, unemployment tends to be a long-term phenomenon, and the limitation of the right to receive benefit to only twenty-six weeks of an unemployment cycle of fifty-two weeks, and the fixation of the maximum period of eligibility for benefit to fifty-two weeks in two years, may prove inappropriate in a severe and protracted depression. Second, the different industries are required to maintain separate and self-contained funds. Not only does this result in an involved administration (owing to the transfer of contributories from one fund to another), but it vitiates the principle that unemployment relief is a matter of national concern, in the financing of which the prosperous industry should aid the afflicted branches of economic activity. Furthermore, administrative expenses are increased on account of a plurality of independent committees. Third, labourers, pass-bearing Natives and persons employed in agriculture are not classified as contributories. Unskilled labourers in particular are precisely the workers who are the most helpless and the greatest sufferers in periods of severe unemployment.

Differential Advantages enjoyed by European Workmen

11. The civilised labour policy formulated in 1924 envisaged the substitution of non-European labour engaged on public works and in the railways by Europeans at rates of pay which would enable them to maintain civilised standards of life. It was contemplated that the policy would be extended to municipal enterprise

and that an improved ratio between civilised and uncivilised labourers would be demanded from private undertakings, exclusive of domestic service and farming. It has already been indicated that the furtherance of that policy has been made a *sine quâ non* of industrial tariff protection and of the subsidisation of municipal unemployment relief. The policy in question aims at the maintenance of civilised standards of life by those individuals who should, by virtue of their skill, training and racial standards, be accorded a remuneration which is sufficient to enable them to maintain the hypothetical civilised standard.

The first result of that policy was the dismissal of many Native and Indian workers from Government and railway employment and their substitution by unskilled Europeans at higher rates of pay. In manufacturing and gold-mining it has similarly been sought to extend European employment, although skilled Indian and Coloured workers are not fully exposed to the discriminatory methods which are utilised, as they too, are assumed to approach civilised standards of life. The brunt of the sacrifice entailed by the differentiation in favour of the civilised labouring class has accordingly been borne by the Native workers, and the large disparity between skilled and unskilled wage rates has its origin in that fact. The lack of training and the indolent disposition of the Native worker are, of course, sufficiently pronounced to justify a substantial difference in the levels of remuneration. But the legitimate margin of difference is aggravated by several measures, which it is proposed to detail.

It should be mentioned in this regard that the objective of establishing a higher ratio of civilised to uncivilised labour in private undertakings has been facilitated by the growing importance of the semi-skilled employee, as the eligibility for employment of unskilled European labourers is thereby enhanced. The problem of their absorption at civilised wage rates has, on the other hand, been magnified by the constant influx from rural to

urban areas. Indeed, the migratory tendency has been so pronounced that an appreciable number of the unskilled European males cannot readily be absorbed into private industry. On that account, and since some of their number are not eligible for semi-skilled openings, the State has been compelled to employ the surplus as unskilled labourers at relatively high wage rates in regular Government enterprises and in relief works of a quasi-permanent nature. These men are paid from 5*s.* to 8*s.* 6*d.* per day, or from £6 10*s.* to £10 per month, in comparison with £3 to £5 10*s.* paid to Native labourers engaged on comparable work. But it must not be supposed that the civilised labour policy is only pursued energetically in reference to governmental and municipal work. The punitive powers possessed by the Board of Trade and Industries endows that body with an effective means of exercising suasion. Indeed, the Board is placed in a position to dictate, in an unobtrusive manner, to the industrialists who seek to make the fullest use of the plenitude of low-paid Native workers, temperamentally equipped to perform repetitive machine processes. Furthermore, in season and out of season, the Department of Labour pursues its rôle of ardent protagonist of the European's prior right to secure employment at civilised rates of remuneration. Thus the Secretary for Labour, in pursuance of that policy, mentions in his 1935 *Annual Report* [9] that

"the Department has continued its negotiations with Industrial Councils to bring about the establishment of wage rates which would enable a reasonable proportion of the class of workers mentioned (of European descent) to enter the unskilled and semi-skilled ranks of labour. It is estimated that approximately 3,100 additional European workers were absorbed into industry during 1935, as a result of special provision having been made for them in Industrial Council Agreements."

The policy in question has been defined in the following terms [10] by the Labour Department:

[9] U.G. 4, 1937, p. 16.
[10] *Ibid.*, p. 15.

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"The object of the Government's civilised labour policy is to ensure that sufficient openings are created to absorb into the industrial fabric of the country those workers who are accustomed to a civilised standard of living but who, being principally unskilled workers, are unable to obtain regular employment owing to the competition of other persons accustomed to lower standards. The class which this policy is designed to assist consists largely of European unskilled workers, numbering approximately 25,000 to 30,000, for whom the Government has in the past been expected to provide relief measures. It has become clear that permanent provision must be made for the employment of these persons, and that temporary relief is no longer an adequate means of dealing with the matter. The necessity for absorbing workers of this class into permanent avenues of employment, at equitable rates of pay, is generally recognised by those concerned in the industrial and commercial development of the country, and the Government is assured of their co-operation. The principal object of the civilised labour policy is to ensure that the class of workers described above is not denied entry into unskilled occupations by reason of the fact that the lower standard of living to which the Native is accustomed has hitherto kept the rates of pay and other conditions of employment for work of this nature at a level which will not enable such workers to live in accordance with the standard generally observed by civilised persons."

Without wishing to deride the endeavours which have been directed towards the social rehabilitation of the impoverished group of Europeans, it is necessary to remark that the alleged unanimity of employers in regard to the execution of the civilised labour policy is closely associated with the exercise of coercion. Neither is there general agreement as to the wisdom of a long-term policy which encompasses the enforced absorption of the class of workers concerned at uneconomic wage rates in preference to increasing their skill by means of systematic instruction. Moreover, the vague reference to hypothetical standards of life—which are essentially subjective and of an evanescent character—is inadequate justification of the displacement of Native workers without giving thought to their needs.

It is clear, however, that the impenetration of the

civilised labour policy has raised the level of remuneration for unskilled and semi-skilled European workmen, despite their rapid increase[11] as partial consequence of the fact that the earnings secured as labourers and industrial workmen exceed the income which may be derived from small-scale farming.

12. The preferred position of Europeans in the South African labour market is further enhanced by their ability to undertake collective bargaining, while the wage and labour conditions of unskilled pass-bearing Natives are dependent upon wage determinations under the Wage Act, from the scope of which farm labour and private domestic servants (embracing large numbers of Native males and females) are specifically excluded. It is, indeed, evident that their backward standards and the prevalence of inter-tribal animosity will gravely impede the application of trade union principles amongst the Native proletariat. But while European, Coloured and Indian workmen are afforded every facility to consolidate their bargaining positions by means of collective action, corresponding facilities are denied to the Native employees, and any possible improvement of their economic position by the exercise of combined action is therefore effectively prevented. It is mentioned that the bargaining strength of civilised skilled labourers will be further improved, relative to the unskilled and semi-skilled labourers of whatever race, by the Unemployment Benefit Act, as it serves to reduce the elasticity of their supply.

13. To recapitulate, the bargaining position of the Natives is impaired by their disorganised state, while any movement in the direction of collective action meets with public hostility and with opposition from the side of South Africa's anti-socialist European trade unions and labour party. Moreover, their position is weakened by the imposition of a burdensome poll tax and the collection of Native quitrent (although the equivalent European tax has been abolished), which deplete their earnings and

[11] *Cf.* U.G. 37, 1935, para. 10.

compel them to accept employment. Finally, their supply is further augmented and the level of Native wages still further depressed by the annual importation of some 100,000 Natives from the surrounding territories.

The mere exclusion of the Natives from the scope of the Industrial Conciliation Act is, however, of smaller importance than the discriminatory application of the Apprenticeship Act, the Industrial Conciliation Act and the Wage Act. Thus in regard to the first-named Act,

> "under nearly all the apprenticeship regulations the minimum educational qualification is Standard VI, and few Native children, for whom education is neither free nor compulsory, have the opportunity of attaining this standard. . . . The required attendance at technical colleges during the period of apprenticeship, which non-Europeans in Capetown alone are able to comply with, constitutes a further barrier" [12]

to the advancement of the Native workman. Then again, wage agreements under the Industrial Conciliation Act may be, and are frequently, applied to Natives with the express purpose of preventing their employment, as the enforcement of arbitrary wage rates, bearing no relationship to the efficiency of the workmen, inevitably results in their discharge. Insofar as wage rates are raised to an excessive extent by determinations under the Wage Act, the effect is identical. Finally, the Native Urban Areas Act, 1923, as amended in 1930 and 1937, permits of the regulation of the supply of Native labour in urban areas by the imposition of restrictions on entry and by authorising the forcible ejection of such Natives as may be surplus to the labour requirements of the urban area concerned. The ability of Natives, both to seek and deliberately remain out of employment in order to secure better remuneration, has thus been drastically curtailed. This measure, like the other Acts mentioned above, therefore contributes towards the

[12] Sheila T. van der Horst, *Some effects of industrial legislation on the market for Native labour in South Africa*, p. 487, *The South African Journal of Economics*, December, 1935.

depressed level of remuneration in the unskilled labour market and compels Natives to accept employment on European farms at rates of wages which are even more unremunerative.

Another relevant factor which has increased the immobility of the supply of Native workers between occupations is the operation of the Native pass laws, which make a breach of contract by Native males a criminal offence. While it might perhaps be contended that, since Native workmen are not civilised, their employers require a greater control than that exercisable over a European by means of civil proceedings, it is not logically or ethically consistent to apply to " barbarous and undeveloped peoples " a stipulation concerning the termination of an employment contract which it is only customary for their civilised fellow-workers to accept.

In conclusion, the racial prejudice of the Europeans is sufficiently strong to prevent the attainment of a civilised standard of living even by the growing number of Natives who possess the requisite educational qualifications, as well as the capacity to become skilled and to accept full responsibility. The colour bar has only been legalised in respect of specified positions on mines, but in practice a voluntary colour bar operates with equal force in all other directions. Unfortunately, too, the very success of the numerous devices to depress Native wages has the effect of strengthening the clamour for artificial safeguards of the inflated earnings of unskilled Europeans.

14. No responsible person will be opposed to the economic rehabilitation of the poor white section of the South African population. But, on grounds of equity, and owing to the abundant evidence that they are inefficacious, it is not possible to subscribe to remedies whose success is measured by their detrimental effect on the non-European section of the community. Gains made at the expense of others offer no permanent solution, since it is axiomatic that human welfare and progress are fully dependent upon the rational exploitation of all

available resources and on the general intelligence, physical fitness and moral standing of every element in a heterogeneous community. The preceding criticism of the present labour policy is based upon the validity of this basic premise, although it is fully recognised as essential for the continued stability of our society that a fundamental change in policy cannot be introduced overnight. There is, however, no convincing reason why the coming generation of both the Europeans and non-Europeans should not receive every opportunity to develop their latent faculties in full. But it is desirable to note that the efforts which have hitherto been made in that direction have to a great extent been nullified by the physiological inability of the backward groups, including the large number of impoverished Europeans, to derive the maximum advantage from their protected position and the educational and housing facilities placed at their disposal. This is not indicative of any inherent deficiency, but is largely a question of cumulative deterioration, due to lasting undernourishment and malnutrition, as recent studies have abundantly shown. It is, therefore, imperative that the problem of social rehabilitation and upliftment be approached with a vastly different emphasis on proper nutrition rather than on further inter-racial discrimination in regard to conditions of employment.

CHAPTER X

RAIL AND MOTOR TRANSPORT

Basic Characteristics of Railway Rates System

1. It is proposed to enquire into the tariff policy of the State-owned railways and into the regulatory system applicable to road motor carriers. At the outset mention must be made of the fact that the Railway Administration has at all times regarded the operative rates policy as uniquely consistent with the rather contradictory injunctions contained in sections 127 and 128 of the South Africa Act. In the course of contemplating the long-term railway transport policy, the National Convention agreed that the railway monopoly should be administered on business principles—using the term, no doubt, in reference to economy in expenditure, and at the same time sanctioning the practice of discriminatory monopoly (at which all monopolists aim). But, recognising that cheap transport is indispensable for agricultural and industrial development, including the promotion of inland settlement and development which was specially enjoined, it was also agreed that the railways and harbours are not to be operated as a profit-making venture nor to be dependent on grants from the Central Government in order to ensure solvency; but, in order to avoid periodic tariff changes because of the effect on railway finances of seasonal or cyclical variations in traffic, revenue might be appropriated for the maintenance of a rates equalisation fund.

Viewed critically and in retrospect, the above general principles embodied in very concise form in the South Africa Act are as good and as sound a formulation of long-term railway policy in general terms as might be wished.

2. As is the case with every other railway system, fixed overhead charges constitute an appreciable percentage of the total costs of the South African Railway Administration; for instance, in 1928–29 the variable expenditure amounted to 58% of total costs.[1] It has accordingly proved profitable, having regard to the accepted principle of discriminatory rates, to attract additional traffic by means of rates which are reputedly less than average ton-mile costs, but, as far as possible, higher than marginal costs. For, insofar as the additional traffic is productive of revenue in excess of marginal expenditure, some contribution, however negligible, is made towards the fixed costs of the system, so that other rates may be kept at a lower level than would otherwise be possible. Indeed, if account is taken of the contributory value of low-rated traffic, it may on balance even be profitable to carry certain traffic, or commodities to or from specified areas, at less than marginal costs. Similarly, a branch line which is not self-supporting may be indispensable for the maintenance of the ruling level of railway rates as well as for the conduct of the entire system on a profitable basis.

On this account it is within limits financially advantageous that the Railway Administration should, by such means, stimulate the volume of traffic in order to approach the maximum of which the permanent way and rolling stock are capable. Indubitably the resultant impetus to production and interchange are also in the interests of South Africa as a unitary entity. An essential counterpart of the above-mentioned dictum is, of course, that costs of carriage should not be the sole determinant of the railway rates. It is not implied that costs of transport should exercise no influence, as the application of equal mileage rates would then follow logically, regardless of the twin facts that constant terminal charges involve a declining ton-mile cost as the distance traversed increases, and that the non-application of tapering ton-mile rates,

[1] *Report of the Departmental Railway Tariffs Inquiry Commission*, 1930; U.G. No. 56, para. 13.

varying inversely with mileage, would destroy a substantial portion of the long-distance traffic. But while the principle of tapering rates is sound, it has to be amplified by adopting the second cardinal principle that the rates charged should tend to be proportionate to the unit-value, rather than the unit-weight, of the different products, since a high unit-value is the proper measure of the capacity of any product to withstand the burden of transport costs.

For these reasons the basic South African railway tariff rates are of the tapering variety, while all the different products have been classified into nine groups, to each of which a different ton-mile rate applies, *vide* schedule mileage rates "A" of the *Official Railway Tariff Book*. It is not contended that the articles classified in each of the nine groups of goods are of comparable value. To a significant degree the classification has a purely historical origin, although to some extent it is evolutionary. Neither is a systematic endeavour made to alter the classification in response to the continuous and very considerable changes in unit-values. Furthermore, although the application of rated ton-mile charges always bears heavily on the low-quality and low-priced varieties of every article, absolutely no attempt is made to provide alleviation to the cheaper qualities. Finally, many products are classified as low-rated traffic merely because of the uneconomic nature of the respective industries. But, despite these considerations, it may be said with an approach to exactness that the high and medium-rated products comprised in the first six traffic groups are so included on account of their relatively high unit-value, economic production or inelastic demand, which enables them to bear high transport costs. On the other hand, the low-rated classes represent goods of low unit-value or the products of uneconomic industries. In general, most imported goods (which are generally fabricated) are classified in groups 1 to 6. A substantial portion of the products of South African manufacturing industries are similarly included as medium-rated traffic.

Agricultural products and requisites, mineral ores and bulky goods amenable to transportation in truck loads, preponderate in the low-rated classes 7, 8 and 9. In addition, there are special rates, higher or lower than the maximum and minimum mileage schedule rates or of intermediate height, while the highest charge of all is made for gold. Finally, the fixation of maximum truck-load rates, irrespective of the excess mileage beyond specified distances, is employed in order to facilitate the traffic in many other bulky agricultural and forestry products, metals and minerals. The tonnage of cargo carried at special rates equalled 1,091,454 in 1935–36, compared with the total revenue-earning traffic of 26,247,902 tons.

It is not possible to provide a reliable indication of the difference between rates 1 to 9, for three reasons. First, the difference is not constant, but alters as the mileage increases. Secondly, with the exception of traffic between places on the same branch line, the railage on products classified at rates 1 to 6 and transported from main line stations to stations on branch lines, or from one branch line station to another *viâ* a main line, or, finally, from a station on one branch line to a station on another branch line, is computed for the entire distance at higher ton-mile rates, *vide* Schedule Mileage Rates "B" of the *Official Railway Tariff Book*. In respect of goods carried at rate 7 or at a lower rate, the railage is similarly calculated on the throughout distance, but at the lower rates contained in schedule mileage "A." Prior to the introduction of schedule mileage rates "B," the railage on classes 1 to 6 to stations on branch lines was not computed for the throughout distance at mileage schedule rates, but separately for the distance traversed by main line and by branch line. Accordingly the rates were heavily loaded. The substitution of the process of splitting, by rates computed for the throughout distance at higher ton-mile rates represents an important concession. However, the existence of two schedule mileage rates precludes a comparison of the average difference between

the rates on classes 1 to 9. Thirdly, in view of the foregoing, it is only possible to make a comparison of the average costs of transport at the different rates if ton-mile statistics and earnings in respect of the traffic carried at such rates are utilised. Statistics of that comprehensive nature are not published by the Railway Administration, and neither has an adequate use been made of the suggested method of comparison by the Tariff Inquiry Commission of 1930 nor by the Railway and Harbour Affairs Commission of 1934.[2]

EFFECTS OF EXCESSIVE DISCRIMINATION

3. Although no convincing case can be compounded in favour of the wholesale rejection of tapering and discriminatory railway rates, the practice is only acceptable if it is not applied so indiscriminately as to prevent the economic production and carriage of high-rated products, while stimulating unduly the production and carriage of low-rated commodities. In the absence of data of the type mentioned in the preceding paragraph, it is not possible to determine whether the requisite balance has already been disturbed. There is, however, such a striking disproportion between high-rated and low-rated traffic that further progress in that direction will narrow unduly the margin of profitability of the railway system. It is probably symptomatic of the already unhealthy situation that in 1929 the Administration showed a surplus of £767,000 with low-rated traffic standing at 76% of the total, but contributing 25% of railway revenue, and a deficit of £627,000 in 1933 when the proportions were 85·2% and 41·6%.

The unbridled encouragement of low-rated traffic has naturally reduced the average receipts per ton-mile. But during the depression the ton-mile transport charge was raised, as financial instability is the logical result of the glaring disproportion between high- and low-rated traffic. Thus the Administration resorted to drastic measures of economy as well as to increases in rates.

[2] U.G. No. 36, 1934.

For instance, a 10% additional surcharge for "*de luxe*" travel was imposed on May 1st, 1931; ordinary passenger fares were increased by 3% and excursion and concession fares by 10% on November 9th, 1931; the tariff for parcels and excess luggage was raised and cloakroom charges were increased; a special surcharge of 1*d*. per 100 lb. was levied on goods carried at rates 1, 2 and 3, and the rates on coal for consumption in the Union were increased. Relief was also obtained in respect of interest due to the Treasury on assets paid for out of pre-Union railway profits and on which the Treasury had no interest charges to meet. Having regard to these increases in the costs of carriage at a time when most other prices were falling, it is not possible to concur in the opinion of the General Manager that [3] "our ability to weather an economic storm of the utmost severity has again been demonstrated and our recuperative powers are plain." It appears also that the rising ton-mile transport charges of the South African railways are of considerable importance as a factor which accounts for the increase in the distributive margin encountered by primary producers during the period of price decline.[4]

As the unbalanced position of the two classes of railway traffic would be perpetuated by the rates system then in vogue, the Administration eventually decided to effect a series of readjustments. Thus in 1936 the buoyant revenue situation permitted of the withdrawal of the temporary surcharges on classes 1, 2 and 3, while the surcharge on coal for local consumption had been abolished in September, 1934. The principal adjustments are, however, contained in the substitution of split rates by the schedule mileage rates "B" in respect of traffic to and from branch lines. The second major change was made in 1936, when reduced rates were introduced on classes 1 to 6 for distances below 200 miles on main and branch lines, and for traffic from main line to branch line stations and *vice versâ*. The latter reduc-

[3] *Annual Report*, 1934, U.G. 37, 1934, p. 4.
[4] *Cf*. Chapter III, *passim*.

tion supposedly also has a bearing on competitive road transport.

Distribution, Sea-Competitive, Preferential and Certain Special Rates

4. It has been contended that, in the absence of data showing the ton-mileage and earnings of the traffic carried at rates 1 to 9, or at special rates, a comparison of the average degree of discrimination practised in connection with railway transport charges on the different categories of goods is not possible. Moreover, this deficiency militates against an objective enquiry into the supposed excessive encouragement and determent of the several classes of traffic. The validity of this conclusion is amply reinforced by the appended account of certain other special types of rates, in respect of which statistical data are also lacking. Accordingly, the relative importance of these concessional rates, their bearing on railway finance and their economic incidence cannot be determined. It is not known whether adequate particulars, reflecting the ton-mileage and the earnings appertaining to rates 1 to 9 and to the complementary special types of rates, are at the disposal of the Rates Section of the Administration. However, their publication, and if necessary their compilation, are very desirable. Not only would data of that character facilitate an authoritative study of railway finance, but students of the subject could direct the attention of the Administration to their significance. Neither can it be contended that excessive labour would be involved in the preparation of the statistics in question. Figures are already prepared reflecting the tonnage and earnings in respect of high- and low-rated traffic and the ton-mileage of revenue-earning traffic, coal and livestock. Since a classification must in any case be undertaken for these purposes, it would be as well to institute a more elaborate classificatory system.

5. Since the schedule mileage rates "A" and "B" vary inversely with distance, it is evident that inland

merchants purchasing direct from coastal ports would benefit from the application of the lowest rate appropriate to the throughout mileage. If the merchant purchased at an internal centre, he would, however, be at a disadvantage owing to the calculation of railage at schedule mileage rates "A" or "B" on the distance from the port to the inland centre, and again from that centre to the final destination. In effect, in the second instance the rates are split as the merchant has to contend with the higher ordinary mileage rates which apply to two shorter distances. In the absence of any countervailing arrangement, the distributive trade would in such circumstances tend to be concentrated at the ports, whence small consignments would emanate to the thousands of purchasers in all parts of the country. As small consignments involve higher transportation costs than truck-load lots, it would be justifiable to quote lower rates for bulky consignments, in which event the distributive trade would be diverted from the few ports to distributors domiciled in strategically situated centres in the interior. In order to avoid repeated requests for lower small quantity rates as well as complaints that large merchants receive preferential treatment, the Administration has instead introduced a complicated, but effective and fairly equitable, system of distribution rates.

The distribution rates only apply to classes 1 to 4, and have only been extended to certain towns which are conveniently situated for the conduct of a distributive trade. The concessional distribution rates differ as between the defined inland and coastal areas, and a variety of stipulations have been prescribed in regard to the calculation of distribution rates from scheduled distribution centres. It is not, however, necessary to enquire into the calculus employed, as in every case the object of the system of distribution rates is to nullify, either partly or exactly, any advantage enjoyed by a harbour distributive centre in consequence of the tapering schedule mileage rates.

While the efficacy of the distribution rates for the

purpose which they serve is self-evident, it should be noted that they have the incidental effect of checking the emergence of a distributive trade in centres which are not included in the list of about forty-five scheduled distribution towns. Prior to the introduction of schedule mileage rates " B," the practice of splitting the rates for traffic to and from branch line stations constituted an additional and very onerous method of discriminating against such towns; even at the present time, distribution centres on branch lines enjoy distribution rates on the higher " B " rates.

The distribution rates were originally designed for high-rated imported goods, but with the development of local manufacturing industries they were extended to domestic manufacturers. It is not customary, however, for South African manufactures to fall in classes 1 to 4; and, insofar as they are carried at the medium rates, 5 to 7, they do not benefit from the concessional distribution rates. Consequently, no transportational advantage inheres in establishing distributive centres for South African manufactures. Contrary to the traditional explanation concerning the apathy of wholesalers, it is evident that the non-application of distribution rates is a major reason why South African manufacturers do not engage in an extensive wholesale trade but mainly supply small quantities direct to retailers. It is also deserving of notice that the non-application of distribution rates to rate groups 5, 6 and 7, in which many local manufactured products are comprised, places all the main lines stations on a par as manufacturing centres insofar as railage is concerned. The concentration of manufacturing industries in five main regions can accordingly not be ascribed to the unequal incidence of the system of distribution rates. Branch line stations do, however, suffer a transportational disadvantage, but the substitution of split rates by schedule mileage rates " B " has lessened the disparity between the two types of railage rates.

6. South African manufacturers are assisted in their

competition with imported goods by means of the nearest port rate arrangement. Clause 253 of the *Official Railway Tariff Book* stipulates that, subject to minimum ton-mile rates, no higher rate is charged in respect of specified South African manufactures than the appropriate port rate from the port nearest to the destination station. Hence, if the distance from the South African factory to the receiving centre is more than the distance from there to the nearest port, the nearest port rate is quoted for the competing Union product. While ordinary schedule mileage rates are reduced by the application of distribution rates to (imported) goods forwarded inland, it is evident that the nearest port rate modifies the ordinary rates in respect of domestic manufactures despatched in a coastal direction. It is obvious, however, that if no restrictions are imposed on the nearest port rate arrangement, its logical result would be the transportation of South African industrial products to any port without payment of railage—as the nearest port rate is nil when the nearest port and the destination centre coincide. An allied situation would arise at destinations which are close to the coast. In order to avoid such anomalies a minimum ton-mile rate is prescribed beyond a fixed distance.

The assistance afforded to local industries by the nearest port rate system is apparent. In addition, special rates are often applied to raw materials consigned to factories for fabrication. A comparable concession is the rebate allowed on goods intended for a specified purpose. Lower rates are, for instance, applied on materials for irrigation purposes in order to encourage irrigable cultivation. An incidental consequence of this discriminatory rate is the concentration of the distributive trade in irrigation supplies at the coast, as the farmer who orders direct enjoys the special rate on the throughout distance, while inland merchants, purchasing for resale, pay the ordinary distribution or other rate, since no certainty exists as to the ultimate use of their purchases.

7. Although preferential railway rates are applied to a

number of South African products, it is the declared policy of the Administration not to extend, but to abolish, such rates. In the coastal regions preferential railway rates afford no protection against competing imports, while, if the factories are situated at the coast, inland consumers assume the entire burden if the industry concerned is protected by means of differential railway rates. Since such rates lead to the aforementioned and to other anomalies, it is generally felt that alternative protective devices may prove less burdensome—although that is not invariably the case; for instance, the imposition of a customs duty in favour of an inland industry which can only compete with imported goods in the interior (and in practice that is frequently the position) places an unnecessary burden on coastal consumers which a preferential railway rate would avoid.

An important influence is exercised on the Union's foreign trade by the habitual application of a special rate on South African products intended for export, generally at a level appreciably below the rate at which the same local products are carried for home consumption. In this way it has been sought to improve the returns accruing to exporters, although in recent years the device has often been employed in order to reduce the loss sustained by them. It may not unreasonably be expected that the growing aversion to uneconomic exports will culminate in a demand for the application of comparable railway rates to products of South African origin irrespective of whether they are exported or consumed in the Union. For the present the opposition to uneconomic exports has, however, not yet been effective, owing to the failure of the critics to suggest an outlet for the larger export surpluses. The concessional export railway rates will therefore continue.

Finally, it is of interest to refer to the policy of the Railway Administration to institute sea-competitive rates. The rates are calculated by adding the ordinary rate from the sending station to the forwarding port, and from the receiving port to the destination station, to

the sea-competitive railway rate. By this means the entire coal traffic from Durban to Cape Town has been attracted to the overland route, while other cargo has been diverted in a similar way. The system in question necessarily exercised an adverse effect on South African coastal shipping. Rather than sacrifice the revenue, the Administration recently obtained a prohibition of coal exports, partly because of a shortage of Natal coal in Cape Town in consequence of a scarcity of railway trucks !

8. The South African railway tariff has an historic origin, but by means of periodic adjustments it has been sought to adapt the rates system to changes in the Union's productive structure. While an inordinate stimulus has conceivably been given to low-rated traffic, the rates system as a whole is a product of lengthy evolution, and it is remarkably well suited to South African conditions. Thus the system of distributive rates is indispensable for the supply of outlying centres from proximate focal points at short notice instead of from the coastal cities, as would have happened if the differential advantage which the ports derive from the tapering rates system were not neutralised. Furthermore, the discriminatory schedule mileage rates "A" and "B," 1 to 9, are not only in approximate conformity with the fundamental considerations on which rate-making practices are based, but are in accord with the Government's policy of stimulating agriculture and base metal mining. Similarly, the nearest port rate arrangement, the remnant preferential rates and the special charges on certain raw materials destined for fabrication are congruent to the régime of industrial protection. Finally, the flat rates applied to bulky exports of agricultural and mineral origin are in harmony with the export trade promotion activities of the Central Government.

It is, of course, apparent that such interests as are opposed to the economic policy which is pursued by Government will also regard the discriminatory railway rates structure with disapproval. The merits or demerits

of the attitude adopted by the State in respect to the distribution of productive resources cannot, however, be considered at this juncture, and it will suffice to stress that, had the railways not been in the ownership of the State, it is unlikely that the railway rates structure would have been so closely attuned to the general economic policy of the Union Government as now is the case. The reason is that a smaller discrepancy between the high and low railway rates would probably enhance the profitability of the railway system, whereas at the present time the financial stability of the service is very largely conditioned by the steadiness of the small volume of high-rated traffic. Since the Rates Equalisation Fund envisaged in the Act of Union has not consistently been kept intact, the very undesirable practice had to be resorted to when the volume of high-rated imports fell rapidly between 1930 and 1932 of increasing the general level of railway rates at a time when other prices and the national income were on the downgrade.

It is, however, not suggested that the rates system is perfect. Many rates probably have but a slender rational basis, but it should be appreciated that it is not always practicable to remove tariff anomalies. Industrialists and traders in the Union base their economic programme on the very reasonable assumption that existing rates will be maintained. Hence, if it appears at a later stage that an alteration of the existing rates structure, or of particular rates, would be productive of certain desirable results, the administration is nevertheless compelled to take due account of the position of established interests. Of particular importance in this connection is the fact that industrial establishments originally tended to congregate at the coast. Since then the extension of the inland demand and the increased variety of primary agricultural products produced in the inland regions have resulted in the erection of factories in the Southern Transvaal. In due course it was repeatedly found that the distribution rates enjoyed by the coastal manufacturers conflict with the interests of

their inland competitors and of the local producers of the basic raw materials. In deciding to effect rates adjustments, the Administration is often confronted with practical issues of that nature which fetter freedom of action. Having regard to the numerous economic and inter-regional relationships which have their origin in the existing system of railway rates, it is evident that gradual adaptation, rather than a sweeping revision, of the railway tariff is essential in order to minimise disturbance and friction.

Motor Carrier Competition

9. In South Africa the established railway system first experienced competition from road motor transport in 1925, from which year the road motor services of the Railway Administration also commenced to expand rapidly.[5] The development of private motor carrier systems was phenomenal during the ensuing five years, as a glance at the relevant import statistics clearly shows. Indeed, whereas it took the railroads thirty-five years (1860–95) to supersede animal-drawn vehicles as the chief means of inland locomotion, the four years, 1925–29, were adequate for the motor carrier to establish itself as a permanent feature of the South African transportation system.

It is of interest to observe that despite the progress of motorisation the South African railways experienced an increased traffic both as regards passengers and goods. Since the available statistics of ton-mile and passenger-mileage statistics register a corresponding trend, it may be inferred that the railway system has by no means stagnated on account of the rapid growth of road motor transport. The motor carriers have without doubt taken some of their goods and passenger traffic from the railways. But a large proportion of the traffic was newly created because the advent of the road motor carrier enhanced the economic utility of areas which were

[5] The first service was introduced in 1912.

previously inaccessible by increasing the mobility of the inhabitants and of their goods and chattels.

10. Owing to the prevalent belief in the inherent paramountcy of railroads, the view was originally held that motor transport should function as a feeder of the railway system. Thus the Railway Administration in particular subscribed to the belief that road motor transportation systems would be most serviceable if employed for the conveyance of products from outlying areas to the nearest railway line and in the reverse direction. The road motor services of the Administration "were originally introduced to foster the production of light agricultural products," especially of the perishable variety. But the revolutionary progress in motor and road construction speedily established that the Administration's road motor services were well suited to cater for other classes of agricultural products, whether seasonal or bulky. The facilities were accordingly extended, although as a rule the Administration's services still function principally as feeders to the railways in areas not served in that way. An incidental result has been to remove the necessity of the construction of additional uneconomic branch lines. Although distinct road motor services are operated for passenger and goods traffic, in most areas it has proved convenient to institute dual-purpose vehicles.

11. The experience gained by the Administration has itself confirmed that road motor services are of overwhelming importance in the entire field of transport. In regard to general merchandise, it has appeared that road motor transport can hold its own against the best railway conveyance for distances up to 150–200 miles; but, as a competitive factor, the private motor carrier is most effective for distances up to fifty miles. At the same time the superiority of road motor transport does not extend to bulky goods. The traffic which is diverted, or the class of products in respect of which motor transport is the more economical for short and medium distances, consists of goods of high value and small bulk. These

articles are high rated and a heavy loss is accordingly entailed by the Administration when they are diverted to motor carriers.

Omnibus services have also proved to be superior to railway transportation in suburban centres, since the density of the traffic permits of frequent services along the main arteries. Another very important sphere of competition between road and rail services is between proximate big towns, and prior to the forcible reduction of such motor services, the railways were compelled to cut passenger fares in drastic fashion in order to retain the traffic. Another effective short-distance service is the catering for Native workmen residing in locations situated on or beyond the outskirts of the urban centres. Organised long-distance passenger motor services have only attained significance in connection with the Native population. Europeans, of course, frequently resort to long-distance motor travel for tourist purposes.

The Railway Agitation against Motor Hauliers

12. As might be expected, the Railway Administration did not adopt a passive attitude in reference to the intrusion of private road motor carriers. In his 1925–26 *Report* the General Manager voiced his objection to the fact that private road motor companies are not "legally compelled to adhere to any fixed tariff, but can adjust their charges to suit their own convenience." At that stage motor traction had caused little concern, as the following quotation indicates: "The Administration, while it has no wish unduly to restrict the activities of competitive road transport agencies, does, however, feel that the railways should at least be placed in the same position as these agencies when forced to compete for the conveyance of traffic" (referring to the instability of motor carrier rates).

By 1927 the attitude of the Administration had changed to outright antagonism: "It should be realised that private road motor services are conducted by persons whose only concern is that the returns are profitable—

returns which benefit but the pockets of a few individuals to the detriment of the community as a whole." Protective legislation was therefore demanded. "The Government, indeed, should be empowered to control and regulate the introduction and operation of private road motor services so as to ensure that such undertakings are not allowed to operate indiscriminately and to cater for the same public needs as are already adequately met by the State's Railways."

In 1929 the appointment of the Road Motor Competition Commission was acclaimed and, after reproducing the Commission's recommendations, the Railways and Harbours Board state in their report—with unusual brevity and apparent overwelcome relief—that "draft legislation is in course of preparation." The resulting Motor Carrier Transportation Act [6] did not completely forestall the keen competition of private road motor carriers, and in frantic appeal for public support the railway station signboards were placarded with twin advertisements portraying the railways as a burden or a boon to the harassed taxpayer—depending upon whether or not he travels by motor. The battle has since been continued by the General Manager in his *Annual Reports*, but the verbiage has lost its former sting (except in regard to taxis operated by "men of straw"); firstly, because the Administration has at last recognised that its transport monopoly has been terminated and that a Ministry of Transport, fulfilling a co-ordinating function, is necessary in order to introduce a rational solution.

Secondly, the necessity has arisen of disclaiming against the growth of animal haulage. In his 1933 and 1934 *Annual Reports* the General Manager averred that animal transport riding was on the increase. "By reason of the extremely low rates charged by these operators, many of whom are paid in kind and not in cash for their services, the volume of traffic, mostly high-rated, filched from the railways by these carriers, has assumed con-

[6] No. 39 of 1930, as amended by Act No. 31 of 1932; 20 of 1934; 29 of 1935; 14 of 1936; and 15 of 1937.

siderable proportions." But "the pitiful state of most of the poorer classes of transport riders, of whom there are many, and the appalling conditions under which they carry on their work, are evidently not generally known and seem to be little cared for." Whereas in 1934 "many transport riders openly admitted that they would prefer to undertake pick and shovel work," we learn in the 1935 *Annual Report* that "of recent months well-to-do farmers have also entered the field and it is on record that one farmer has acquired twenty teams of donkeys and is employing them in relays"; furthermore, "several inland garage proprietors have also commenced their own donkey transport for the conveyance of petrol and oils from the coast." For the present the invective of the General Manager is, therefore, being given vent to by stressing "the necessity of taking steps to check this out-of-date and inhumane method of transport." [7] The surprising admission is, however, made in the 1936 *Report* that in the interior the competition from transport riders had abated and that "the falling off in the competition inland is attributable to the readjustment of branch line rates." [8] Since the remedy, therefore, appeared to rest with the Administration itself, the General Manager was constrained to mention in his 1936 *Report* that the earlier plea for prosecutions on the ground of cruelty to animals (for which purpose the aid of the police and of the S.P.C.A. had been eagerly invoked) was not an altogether selfish one nor an overstatement. Indeed, the irrevelant assurance is given that earlier declarations on the humane aspect were "based on fact supported by photographic and other evidence." [9] Clearly the ass has placed the Administration in a very embarrassing position.

13. Appeals to the loyalty of railway users did not check the expansion of motor transport, and the Railway Administration accordingly proceeded to lessen the

[7] U.G. 41, 1935, p. 39.
[8] U.G. 47 of 1936.
[9] *Ibid.*, p. 42.

vulnerability of road motor competition by means of suitable tariff adjustments. Firstly, Section 3 (*b*) of Act No. 22 of 1916 was enforced in order to permit of the application of differential wharfage dues, at the rate of 1*s.* per cental, to goods imported by firms who did not contract to have all their goods conveyed by rail in competitive areas. "As a result of this coercion over 7,000 wharfage contracts were signed."[10] Secondly, successful tenderers for railway supplies were obliged to agree to the exclusive use of the Administration's services. Thirdly, the Departmental Railway Tariff Inquiry Committee of 1930 devised a scheme which would involve a reduction of rates for traffic susceptible to diversion, as a step in the direction of putting a stop to road motor competition.[11] The Committee regarded it as incontrovertible that road motor transport can never give comparable rates for long-distance and bulky traffic. However, the graduation of rates in inverse ratio to distance and the practice of "splitting" then applicable to the calculation of goods rates to and from branch lines have the effect of loading the rates for short-distance traffic, particularly insofar as high- and medium-rated traffic are concerned. Accordingly, high- and medium-rated short-distance goods traffic is exceptionally vulnerable to road motor competition. In diversion of that type of traffic considerable sacrifice is involved as it is a fertile source of railway revenue. Moreover, it is clear that if the Administration endeavours to recover the loss by increasing the railage on low-rated traffic, a considerable portion thereof would inevitably be destroyed. The Committee accordingly recommended that the existing rates 1 to 6, at a distance of 200 miles, be applied per ton-mile for all distances between 1 and 200 miles.[12]

The deterioration of railway finances during the depression precluded the adoption of the Committee's

[10] R. Horwitz, *The Restriction of Competition between Road Motor Transport and the Railways in the Union of South Africa. The South African Journal of Economics*, June, 1937, p. 146.

[11] U.G. 56, 1934, para. 102.

[12] *Ibid.*, para. 97.

scheme, as it was estimated to involve an annual surrender of revenue of £350,000. Furthermore, the Motor Carrier Transportation Act could be, and was initially, administered with the salient object of lessening the road motor competition experienced by the established services of the Administration. Nevertheless it was fully realised that the existing rates structure accentuated the competitive faculty of road motor transport in the spheres to which that form of haulage is inherently adapted. Accordingly, as soon as railway finances permitted of a modification of the rates on short-distance high-rated traffic without necessitating an offsetting increase in other rates to the detriment of low-rated traffic, the Administration did not hesitate to reduce the disparity with a view to lessening the vulnerability to motor transport competition. Thus the split rates on traffic to and from branch lines were substituted by the more favourable schedule mileage rates "B," applicable on the throughout distance. Furthermore, in 1936, rates 1 to 4 were reduced for distances up to 200 miles. Finally, in recognition of the importance of road motor transportation in the Union's economy and in order to check the diversion to road haulage of a highly remunerative product carried in bulk, special rates have been applied to petrol emanating from the principal harbours (other than Cape Town), while a general reduction in petrol railage was effected in 1937.

Motor Carrier Legislation

14. Singularly enough, the Motor Carrier Transportation Act is the product of two conflicting schools of thought. The Railway Administration was an anxious supporter of the legislation in the expectation that the Administration's services would be safeguarded by means of indiscriminate restrictions on competitive road motor carriers. As it happened, when the Act took effect on January 1st, 1931, the depressed economic conditions had accentuated the problem of superfluous private road motor services. In order to prevent hardships, the Act

made it obligatory that all existing services should be prolonged for six months before the motor carrier certificates could be reviewed on their merits. Similar protection was accorded to intending motor carriers who had already incurred expenditure in furtherance of their projects. But on the expiration of the period of grace, redundant services were gradually eliminated. In addition, the regulatory boards adopted a rather strict view in reference to the adequacy of the railway facilities provided by the Administration. As a result, a large number of goods and passenger services were declared redundant merely because they ran parallel to a railway line or to the route followed by another certificated road transport service, or because they had been established on a purely selective basis—concentrating on high-rated goods (such as petrol), while leaving the low-rated commodities (such as the empty petrol containers) to the railways.

The second school of thought—of which the transportation boards and the railway authorities are now modest adherents—was concerned at the chaotic development in an important service-rendering industry, in consequence of unrestrained competition between operators who could readily undertake motor transport since small capital and little skill are required. But, unlike the railway authorities of 1929–30, the representatives of the alternative school of thought envisaged orderly regulation and co-ordination of both branches of inland transport. While admitting the necessity of eliminating redundant and surplus road motor services, they acknowledged the superiority of motor transport in the spheres to which it is technically suited. They were, therefore, averse to the imposition of restrictions in a blind endeavour to stifle the process of motorisation. They considered instead that an integrated and economical transport system could be achieved by eliminating redundant services where they exist, by ensuring that additional uneconomic road motor services will not be established, and by authorising the inaugura-

tion of motor transport systems for the performance of such services as they can undertake economically in regions where certificated transport facilities are deficient or where the available railway services do not meet the reasonable requirements of the public.

The Motor Carrier Transportation Act has been given a wider application since its inception by virtue of the provisions of the amending Act of 1932, and by the administrative process of increasing and enlarging the regions and routes subject to control. The reasonable attitude which has been displayed by the Central Road Transportation Board, the railway plea for a co-ordinating ministry, the tariff adjustments effected by the Railway Administration in recent years in recognition of the superiority of motor transport over distances under 200 miles, and the available data appertaining to the progress of private motor carriers cannot, however, fail to produce the impression that the Act in question can no longer be stigmatised as an essentially repressive measure. The viewpoint that railway transport, while indispensable to the economic progress of the Union, is yet not superior in all respects, seems to have prevailed. "The impression that the Act was promulgated solely to bolster up the Railways regardless of the consequences has long since disappeared," is the view expressed by the Central Board.[13] The guiding principles adopted by that Board seem to involve the elimination of the waste which results from an unnecessary duplication of transport services, and the extension of its sanction to road motor services whenever the railways or other certificated road motor systems provide inadequate transportation facilities. Moreover, in order to promote stability in the industry, preferential treatment is accorded to "the long established operator who runs a satisfactory service on a sound basis," irrespective of whether the operator is the Railway Administration, a local authority or a private person.

Possibly, the Board still attaches insufficient import-

[13] U.G. 43, 1936, para. 66.

ance to the purely economic aspect whether road motor transport systems cannot, on occasion, produce economic results even though they are in direct competition with the railways. There is much to be said for "feeder" services, but grave danger lurks in demarcating the transportational scope of a developing transport system on an inelastic basis. This is the reverse aspect of the Board's laudatory description of its own attitude[14]:

> "The Board is still pursuing its policy of co-ordinating road services where possible with existing rail services. As previously reported, road transport in direct competition with established services was not ruthlessly put off the road, but was deflected where possible to routes where 'feeder services' to existing rail or road motor services were required. This co-ordination has proved beneficial to the farming community where the feeder services are growing in popularity."

But it must be clear to every impartial observer that there is a distinct tendency to accord to road motor transportation its rightful place in relation to the railway system. The spirit in which the Motor Carrier legislation is administered, therefore, augurs well for the future.

15. The Central Road Transportation Board was invested with the function of proclaiming transportation routes and regions on, or within which, motor carriers may only operate for reward if they are in possession of a motor carrier certificate issued by the Central Board, or, subject to appeal to the Central Board, by the local boards established for the different areas. These certificates regulate the nature of the goods, dual-purpose or passenger services, their frequency, volume, route and period of operation. They may also stipulate the time table and approved scale of charges to which the public carriers must adhere. Initially, fourteen transportation areas were proclaimed and the principal public roads were declared to be transportation routes for the purposes of the Act. Owing to the tendency to evade the restrictions imposed by travelling over less frequented roads, additional routes were proclaimed in 1933. On the

[14] U.G. 43, 1936, paras. 63–4.

basis of the closer knowledge of the traffic position gained in the course of administering the Act, a new classification of routes and areas was introduced in 1936.

16. The principal Act applied to public carriers operating goods, passenger and dual-purpose road motor services. Omnibus services were defined in terms of seating capacity in order to exclude taxis designed to carry seven persons or less. Motor vehicles, used in the conveyance of goods by the seller to the purchaser, for the conveyance of farm products to the proximate railhead or connecting certificated road motor service, and for conveyance in the reverse direction of all classes of goods in respect of which satisfactory rail or motor carrier services did not exist, were similarly exempted from the obligation to obtain a motor carrier certificate. Other obvious exemptions related to the transportation of school children, patients, corpses, disabled cars and so forth.

The available data do not afford a satisfactory insight into the number and volume of the existing services which had to be discontinued owing to the refusal of applications for the requisite motor carrier certificates. Judging from the relief experienced by the Railway Administration the limitations imposed must have been considerable. At the same time the Board declares [15] that "the curtailment of services and the co-ordination of the restricted services were gradually effected. In many cases the operators ran their original services for twelve months to enable them meantime to find new spheres within which to continue."

Although not fully comparable owing to changes in the proclaimed transportation areas and routes, the available statistics [16] of motor carrier certificates issued and of passengers and goods conveyed by certificated motor carriers, confirm that the Board has not abused its trust by engaging upon a ruthless programme of restric-

[15] U.G. 30, 1934, para. 36.

[16] Extracted from the *Annual Reports of the Central Road Transportation Board.*

tion.[17] Between 1932 and 1935, for instance, the number of passengers increased from 47 to 70 million, and the tonnage of goods conveyed from 500,000 to 1,140,000 tons.

17. The Amending Act of 1932 extended the classes of road motor carriage which are subject to the control of the regulatory boards. Firstly, consequent to the elimination of certain passenger motor services, the use of taxis for long-distance travel increased considerably. Indeed, they frequently functioned as omnibus services and charged a fare per passenger. In order to counteract this method of evasion, taxis operating regularly between particular places where reasonable railway and motor carrier facilities are available, were made subject to the requirements of the Act. It is understood that evasion is still practised by varying the route and the termini of the regular taxi services. This expedient is employed with great facility if two or more operators pool their taxis.

Secondly, motor vehicles used in the course of business, trade or industry, were brought within the scope of the Act, subject to the provisos that exemption certificates must be issued within areas defined by regulation, and at the discretion of the boards in other regions. Application for exemption certificates was also made compulsory in respect of motor carriers engaged in the conveyance of farm products from the countryside to the nearest rail-head or connecting road motor service, or used for the conveyance of all goods in the reverse direction. The stipulation that exemption may be granted for the intermittent conveyance of parties participating in sports games, picnics, religious gatherings and other communal functions, is also relevant in this connection.

[17] In a destructively critical article in the *South African Journal of Economics*, June, 1937, Mr. Horwitz makes play of the decline in the number of certificates issued in 1932 and 1933. No mention is made of the tendency towards the formation of combinations. Indeed, it is implicit in his discussion that the Board's actions have tended to restrict road motor services. Although the statistics relating to the volume of traffic have a different purport, they are not referred to in the article.

18. It is apparent that the effect of the foregoing provisions of the law, especially the restrictions placed on the commercial use of motor vehicles, depends upon the adequacy of the defined areas within which exemption is compulsory, and upon the criteria adopted by the Board for the purpose of discretionary exemptions. It may here be mentioned that the intention of the amending law was not to restrict the use of the motor vehicle for normal business purposes. The extension of control had, however, been necessitated by the tendency observed amongst business men to undertake their own motor services in respect of their high-rated requirements while leaving the remainder of their traffic to the railways. Moreover, the mere fact that the regulations governing the grant of exemption certificates are regularly discussed between the Board and the business interests concerned, indicates that the inclusion of commercially-owned motor vehicles within the ambit of the Act, was prompted solely by the desire to avoid a repetition of the duplication of transportation services which it was the purpose of the Act to prevent.

For the purpose of applying the exemption provisions of the Act to motor vehicles used in business, the magisterial district was taken as the basis. Normally, an exemption certificate is, therefore, issuable for the conveyance of goods by sellers to purchasers, or, by the purchasers themselves, or, again, by their owner to the place where it is intended to use, sell or store them, if the motor vehicles belong to such seller, purchaser or owner. The definition of exempted areas with reference to artificial magisterial boundaries is rather arbitrary; but it is not as unpractical as one might be inclined to think, having regard to the circumstance that most magisterial areas have a town as the focal point from which the traffic routes radiate. In any event, the Board has readily acceded to representations to extend the defined areas whenever local or inter-district conditions of trade warrant such extension. Annual exemptions are also granted to an increasing extent in respect of the con-

veyance of farm products and requisites. It is mentioned that the annual statistics of exemption certificates show convincingly that a liberal attitude is adopted by the Board in connection with the grant of exemptions for the several purposes prescribed by law.

In addition to the exempted services and annual motor carrier certificates, the boards also undertake the issue of temporary motor carrier certificates for emergency transport or for the conveyance of classes of commodities for which the existing haulage facilities are unsuitable. The temporary certificates generally refer to furniture removals, consignments requiring personal supervision in transit, contracts stipulating delivery and installation, perishable or fragile commodities, and to orchestral and other tours.

CHAPTER XI

SYNTHESIS OF ECONOMIC POLICY

Fundamental Objectives

1. It is proposed to furnish a synthesis and appraisal of economic policy in the Union; but, as any judgment reflects the underlying point of view, it is necessary first to enunciate one's attitude towards economic well-being. Fundamental objectives, towards the attainment of which all interests should co-operate, are not cut-and-dried issues—at least not in a *laissez faire* régime—and, although the statement that economic policy should be directed at promoting the ascendancy of the South African nation will probably be acclaimed with unanimity, that is a hopelessly vague ideal.

2. For the purpose of economic studies it has become customary to have recourse to a theory of State interference which concerns itself with the maximisation of economic welfare. However, as a fundamental object of conduct it also lacks precision and its implications must, therefore, be further analysed. In general, it is evident that economic well-being can only attain an optimum if the productive qualities of the nation are developed systematically and if every individual is accorded the opportunity—which he must utilise—of realising the best of which he is capable in the existing state of technique.

Two objections to that concept must, however, be noted. Governmental policy and human welfare are determined by other factors besides the one consideration of economic well-being, and while it has been argued in mitigation that total welfare and prosperity are closely correlated, there are exceptions; hence it is only legitimate to predicate that economic well-being is the most

vital constituent of public welfare in civilised communities. Further, the expedient of giving priority to economic welfare and of investing it with an overwhelming significance, does not yield an unambiguous criterion of what is the correct and proper policy. It has been suggested [1] that the want of precision would be avoided by substituting for the national dividend, measuring the community's real income, the homogeneous quantitative units of employment and money value of output. But no definition and no choice of units of quantity will eliminate the inexactitude of which is complained, as neither of the several criteria furnish a reply to the fundamental matter whether the highest possible degree of economic welfare, the maximum possible value of output, or full employment, should be secured for the contemporary or some future generation, nor do they indicate what is the appropriate standard of measurement. Accordingly it should be realised that, depending upon the time-dimension attached to these concepts, the attitude towards the object and method of State interference alters considerably, fluctuating between the confines of pusillanimous inertia and rabid communism. An attempt to delimit an ideal period of time is unlikely to yield any reliable result, and it is, therefore, postulated that in seeking to maximise the value of output at lowest costs, the State should reform the social processes of the time without causing an inordinate disruption or destroying, without reasonable compensation, the opposing interests which may exist in the particular generation. Subject to that qualification, national economic policy should pursue a positive equalitarian objective, emanating from a purposive striving to eliminate ignorance and poverty.

If the qualities of the nation are to be improved and put to use, it seems essential to design a plan of action which will eliminate evasion and chance to the extent that the moral standards and the intelligence of the

[1] J. M. Keynes, *The General Theory of Employment, Interest anI Money*, Chapter IV.

community permit. It has been indicated previously[2] that conflicts can best be avoided and conscious evolution facilitated by discarding the individualistic theory of State interference in favour of a realistic doctrine which recognises the existence of group interests and acknowledges that they can be integrated by means of bureaucratic guidance or coercion. It is, therefore, only necessary to add that the waste and uncertainty which characterise a semi-competitive economic system can no longer be tolerated by a democratic community which is desirous of perpetuating its own existence and of maintaining its comparative excellence, as international rivalry will in future be much keener owing to the incessant sacrifices of the numerous dictator-States to improve the quality of their peoples and their standard of material welfare.

Further, it is implicit in the objective which has been enunciated that the distribution of resources should be such as to ensure the degree of balance between the major branches of economic activity which alone can impart the requisite permanence to the economic structure. As the orientation of productive resources in a competitive society is largely determined by considerations of private gain, it is, therefore, an important function of the State to scrutinise the resulting arrangement of resources with a view to guarding against over or under-development in different directions and a consequent lack of stability.

3. In pursuance of the preceding generalisations, the co-ordination of economic policy in the Union, the utilisation of the qualities of the people, and the relative position of the major branches of the South African economic system will be considered in the succeeding pages. As a preliminary it is however necessary to give attention to the relation of distinct racial and income groups to the dictum that the fullest possible use should be made of the productive faculties of the individual.

If the high standard of civilisation which has been

[2] *Cf.* Chapter I, *passim.*

attained by limited sections of the European nations were an achievement which the rest of mankind cannot attain, there would be ample ground for perpetual enslavement of the inferior elements. It is not apparent, however, that this view is either widely held or invested with overmuch truth; indeed, it is generally accepted as desirable, and even described as our sacred mission, that all races and classes should be induced to improve their spiritual values and material welfare. Moreover, it is posited that, irrespective of race or creed, it is an unchallengeable and permanent objective, uniquely consistent with the best standards of Western civilisation, to attain an optimum level of output and consumption for every element in a heterogeneous community. No presumption of absolute equality (between European and Native, for instance) is involved. Neither would it be warranted because the haphazard evolution of mankind has accentuated individual and class inequality to a degree which centuries of purposive development alone can correct. But the State should actively assist in restoring the balance by upliftment of the backward sections of the community and by curbing the capitalistic power which is maintained to the continued detriment of other groups.

The high ethical principles which are implied must be accepted in all spheres if the ultimate destiny of mankind is to be an exalted one. True enough, there are current, here as elsewhere, a ruthless determination to gain ascendancy over other races and a co-existing low estimate of human life which substitutes Protestant tolerance by a mythical justification for persecution and extermination. If these are not passing aberrations, the doctrine of State interference would require restatement on a racial pattern in contrast to the national point of view which has been adopted. The opposite ideal has, however, been enunciated with such brilliance and conviction, and it is so impregnated in our enlightened civilisation that it is accepted without further elaboration. There is, however, undue hesitance in pursuing it.

4. The civilising process may not be successful, and its exponents, therefore, endeavour to insulate their own excellence from the results of failure. Moreover, on account of a misplaced emphasis, the possibility arises that the maintenance of a position of superiority may become a more engaging preoccupation than the initial aim of extending the charmed circle of the civilised. Trite as these comments may be, they serve to clarify the social philosophy of the dominant element in the Union.

The South African population comprises 2 million Europeans, 6·6 million Bantu, 220,000 Asiatics and 770,000 Eurafricans. The European minority is dominant in all respects, although their position is not quite secure from a long-run standpoint on account of the numerical preponderance of the subservient elements, while the rates of increase of the racial groups—including the rural white population[3] on which all hopes are centred—portend a further deterioration of fortunes in this respect. However, the European race in South Africa is naturally very desirous of consolidating its position and of maintaining its teutonic complexion. Effective franchise rights are, therefore, vested solely in naturalised Europeans. Moreover, the non-Europeans are culturally inferior and economically backward; they are excluded from social life, and miscegenation is almost unknown. The entry of Asiatics is forbidden and Indian emigration is sponsored by the State, while, as a relic of the past, when the possession of landed property connoted power and excellence, they possess restricted property rights.

There is no verifiable prospect that this process of subjugation can be continued indefinitely, and since suppression conflicts with the principles of our Protestant civilisation, it may be thought that a surer means of ensuring European ascendancy would have been preferred. In actuality, however, the tide of immigration

[3] *Cf.* Hansi P. Pollak, *European population growth since Union*, *South African Journal of Economics*, March, 1936, p. 10.

from the Latin countries and Russia was checked in 1930, as it is definitely wished that the Afrikaans and/or English sections and allied races should predominate. Moreover, in 1937, European immigration was placed entirely on a selective basis, excepting that natural-born British subjects are freely admitted, on account of an anti-Jewish sentiment and the entry of many Jewish fugitives after 1933. While selective immigration is well merited in these troubled times, it is regrettable that no active policy of encouraging the entry of "assimilable" Europeans is pursued by the State. All the relevant factors suggest that the rate of inflow should far exceed the recent average of 5,000 Europeans per annum. The numerical discrepancy between the European and other groups, the low density of population, the pervasive tendency towards a higher degree of self-sufficiency, as well as the authoritative sociological belief that a constant accretion of "new blood" is indispensable for the maintenance of the calibre of the European population, suggest that an active immigration policy would be infinitely more appropriate. It is believed, too, that the objective of an indiscriminate raising of output and consumption can only become a practicable one in South Africa if action is taken simultaneously to increase substantially the number of European inhabitants, as they will not otherwise readily consent to a rapid enhancement of the well-being of the depressed majorities.

Co-ordination of Policy

5. In the course of describing the principal features of South African economic policy, it transpired that several objectives pursued by the State are inconsistent, that some measures are belated and others quite erroneous. Thus, entry into the different enterprises is formally unrestricted, but vested interests are protected by various means or are allowed to insulate themselves from their competitors. The emergence and prolonged continuance of uneconomic business units is thereby facilitated and efforts to hasten the development of economic manu-

facturing industries by applying fiscal protection are largely frustrated.

Furthermore, the practice adopted during the depression of sustaining the level of returns to primary producers as far as possible by subjecting local consumers to prices in excess of export values was not discontinued in the later years of prosperity. The tardiness displayed in adapting agricultural policy to the altered economic circumstances is generally attributed to the absence of group organisations which can administer projects for the supply of the requirements of local industries and the poorer classes at export prices in a manner which would effectively eliminate resale. But these administrative impediments originate in the large discrepancy between inland and export prices, and they would have been lessened or avoided if an expansive policy had been adopted when the occasion presented itself from 1934 onwards. With the exception of sugar and dairy products, no serious effort was made to reduce the volume of uneconomic exports by taking advantage of the enhanced purchasing power in the Union during the period of recovery, so that the large discrepancies between inland and world prices of foodstuffs were perpetuated to the detriment of all concerned.

By checking consumption, the unsuitable agricultural price policy contributed in an indirect way to the partial dissipation of enlarged urban incomes in a gigantic property and gold share boom, which was, however, mainly due to the indiscriminate easing of credit conditions. The resulting boom has not been conducive to stable development and the extraordinarily high level of activity was further stimulated by the Governmental construction programme which was needlessly launched at the height of prosperity. Thus a national roads scheme, involving an expenditure of £17 million, was inaugurated; giant irrigation works were initiated; a determined effort was made to modernise public buildings at an estimated cost of £20 million, while harbour and railway construction has also assumed extensive dimen-

sions. There is no evidence that these public works were planned so as to conserve the authoritarian demand for investment funds until the day that private activity might again show signs of dwindling.

Then again, the persistent townward migration of Europeans is viewed with disapproval by the authorities, although not long ago the paucity of Afrikaans-speaking people in business and industry was widely lamented. It is apparently not fully realised that the rural inhabitants are enticed to change their abode by the unattractiveness of subsistence farming at a time when technological progress is placing a premium on large-scale farming and by the official high-wage policy in respect of all unskilled workers who care to enrol. It were better if the rural influx is accepted as inevitable, and the crude civilised labour policy of bolstering up the earnings of unskilled European workers at the expense of Native employees substituted by systematic adult retraining. The facile practice of wage discrimination is so ingrained, however, that even the Industrial Legislation Commission failed to perceive the crux of the matter. Thus the Commission qualified their advocacy of adult apprenticeship by remarking [4] that "it is important to bear in mind that it need not necessarily result in an increase in the number of apprentices, since only a limited number of apprentices can be employed at any given time—depending upon the total available training facilities in a particular industry and the demand for apprentices." This point of view is entirely static and clearly untenable, as it is self-evident that adult apprenticeship and, what is more important, retraining of displaced farmers by the State, are essential in order to prevent the deterioration of latent faculties through lack of use or through employment on unskilled manual work.

Finally, the wave of prosperity which commenced in 1933 was mainly due to the persistent foreign demand for gold despite the rise in its price. In the circumstances it might be thought that Government would

[4] U.G. 37, 1935, para. 804.

have refrained from any action which could conceivably contribute towards a limitation of the world demand for gold. The illiberal trade policy applied since 1935 has, however, had the opposite effect. It was evidently left to the British Government (at the instigation of the United States) to point to the error of our ways at the 1937 Imperial Economic Conference. But, apart from the agreed reduction of intra-Commonwealth preferential margins, the conversion to a pro-gold foreign trade policy has not hitherto led to any tangible results, either in the shape of most-favoured-nation agreements with countries with which the Union has large unfavourable trade balances, or by the conclusion of payment agreements (with, for instance, Denmark, Germany and Italy, where the Union throughout received exchange quotas) on the basis of a modified import : export ratio and not one of equality.

6. The existence of such conflicting policies suggests that the ordinary administrative system does not satisfy the demands of the extended interventionist programme of the State. The present system makes no provision for regular co-operation between the civil service and outside interests. Within the civil service, however, informal consultation is practised and, in addition, use is sometimes made of inter-departmental committees and commissions of enquiry to synthesise departmental experience. For the remainder, the departmental chiefs, acting independently of one another, play a pivotal rôle and largely shape the Cabinet decisions. Subject to their guidance, the function of co-ordinating the activities of the various departments and of welding them into a unified economic policy is therefore performed by the Cabinet of the day.

Since the inauguration of this administrative system the scope of State intervention has widened considerably and the information on which a judgment must be based has also become more complex. It is very doubtful whether the independent departmental chiefs can assimilate and present to Ministers in proper perspective all the

relevant particulars—possessed by a vast number of people, if available at all—particularly since conditions are constantly changing in a manner which cannot be anticipated. The political administrators themselves have a no less onerous function, but they still display a distinct tendency to embark upon a national stocktaking in five-yearly periods prior to a general election. Clearly, the appraisal of the country's economic situation as a whole has become a task in itself, and as long as it is accorded so subordinate an importance, it is inevitable that the measures which ought to be applied at given times will be delayed, that some of the measures adopted will be inconsistent, that mistakes will be large in number and wide in scope.

In this connection it is reassuring that group control is being practised increasingly under bureaucratic supervision, as is evidenced by the pro-associational attitude of the Board of Trade and Industries, the extensive range of collective bargaining and the organisational system for agriculture which is in the making. The resulting contact with private interests engenders a more harmonious disposition and a precise delineation of group interests may promote co-ordinated action. But the existing deficiency of co-ordination will not be overcome until the combination of departmental plans into a unified economic policy, and their adaptation to changing business conditions, are made the constant pre-occupation of a permanent body, fully equipped to examine South Africa's economic policy in its entirety and possessing sufficient standing to ensure that its recommendations will carry weight. This central council must have at its disposal comprehensive statistical particulars of dynamic economic relationships, and it would, therefore, be necessary to remedy the outstanding defects of the Union's statistical system, of which a few random examples may be apposite.

South Africa's national income is not yet calculable with accuracy, principally because the value of agricultural production is unknown, while data concerning

capital formation and investment are most incomplete. Further, the local output of durable goods is often a mystery, owing to the restrictive interpretation which has been placed on the secrecy provisions of the Census and Statistics Act.[5] Then again, no information concerning the flourishing cinema industry is available. As entertainment taxes are levied in all the Provinces, the declarations of promoters could be drawn upon in order to obtain full data, and it is unquestionable that the expenditure on entertainment is an indispensable item for the purpose of gauging the spending habits of the population, which are at present unknown. Finally, in order to measure the degree in which the community's circulating capital is periodically depleted or augmented, data reflecting the stocks on hand at the close of the financial year of each business—even though they end differently—are very relevant, while variations in retail sales are, in turn, of great importance for the purpose of determining the trend of business activity. Despite the fact that trading licences are based on the values of merchants' stocks, so that the information concerning the country's circulating capital can be secured by summation of the figures appearing on the sworn licence application forms, no trouble is taken by the authorities to collate the figures. Having regard to the vital missing links in the Union's national statistical system, it would seem that at present imaginativeness is an essential characteristic of whoever wishes to enquire into South Africa's economic prospects.

The Quality of the People

7. Despite every remedy which has hitherto been applied, the spectacle of a large impoverished European class is no nearer solution. Indeed, the remedies to which resort has been taken have generally involved an

[5] Sections 13 and 17 (*c*) of Act No. 38 of 1914 restrict the publication of census data and the Statistical Council has ruled that these provisions are not complied with if statistics are published in connection with an industry consisting of less than four *independent* producers.

artificial increase of their earning capacity, so that a different result can hardly be expected. A lasting improvement can only be attained by means of purposive instruction of the unfortunate juveniles and retraining of the displaced adults for other work. Admittedly elementary education is free and compulsory in the case of juveniles, but the prescribed minimum standards do not equip them to earn a living; adult instruction and facilities for retraining of rural migrants are totally lacking, however, and since their adverse experience often makes these people apathetic, the discriminatory wage rates which they enjoy as unskilled workers do not automatically increase their efficiency.

The poor quality of a substantial portion of the European community is a partial result of under-nourishment and "Committees of inquiry into the poor white problem as a whole and into sections of it (as in the Knysna-George forests and the diamond diggings populations) have been shocked by the effects of mal-nutrition, due to the inadequacy of protective foods in the diet of growing children."[6] In addition to an invigorated educational system and the institution of retraining facilities, there is thus a growing need to lessen the disturbing lack of balance between individual claims on the national income. The increasingly uneven distribution of incomes may be deduced from the published statistics of taxable incomes,[7] which show that the bulk of the population are exempt from income tax because their earnings are so small, while a fairly constant number of individuals are appropriating an expanding share of the national income. It is inferred that the income taxes and estate duties are not graduated sufficiently steeply to check the growing inequality of incomes. But, apart from the imposition of differential taxes on the upper and middle classes, the scope of free social services should be extended. Educational and medical services are already provided, while old-age

[6] U.G. 48, 1936, p. 82.

[7] *Vide Annual Reports of the Commissioner for Inland Revenue.*

pensions and sub-economic housing schemes have been instituted, but an increased expenditure on technical instruction and improved nourishment of the low-income groups would satisfy needs of a pressing order. The importance on the quality of the people of nutrition and subsidised consumption or sale of protectve foodstuffs to the low-income groups at concessional prices cannot be too highly stressed. It is to be hoped, therefore, that by means of Government grants the contemplated agricultural regulatory boards will be enabled to increase the internal consumption of foodstuffs to a figure above the level attainable in competitive conditions by graduating prices in accordance with varying consumers' preferences or by introducing low-priced qualities as in the case of sugar.

8. The position of the non-European groups is infinitely more deplorable. The civilised labour and high-wage policy discriminates against the Native workers and when unemployment threatens they receive very scanty assistance. In consequence

> "practically the whole of the Bantu population is suffering from the effects of under-nourishment. More than half of the adult males of the Native territories are found to be physically unfit for work on the mines, so that a vast importation of labour from outside our borders becomes necessary. There is not the least doubt that this physical unfitness of the Natives is to be attributed directly to the inadequacy of the diet particularly of the children and adolescents." [8]

Furthermore, owing to malnutrition and poor housing, the non-European inhabitants are more subject to the ravages of disease. Thus in Cape Town during 1930–31 "the general death rate of non-Europeans was 2·4 times as great as in Europeans, the infant mortality rate 2·7 times and the tuberculosis rate 6·1 times. . . . This was not due to racial causes alone," but also to "the influence of social and economic conditions on the death rates of

[8] Secretary for Public Health *op. cit.*, p. 82. The sentences quoted have been joined.

different sections of the community."[9] Moreover, the Native cannot pay the cost of medical treatment, so that "the only alternative is that his employer must do so. The mines generally shoulder the burden without question and . . . in Natal the master must, if the Native lives with him, pay 2*s*. a day for his hospitalisation for a maximum period of two months. The other Provinces do not have any direct provision."[10] The big hospitals provide clinic services, while the Provincial Administrations subsidise the mission hospitals, but the facilities provided are inadequate. Pregnant Native women therefore adopted the practice—before the magistrates were instructed to postpone such cases—of purposively committing petty offences in order that they might first be gaoled and thereupon committed to the prison hospitals.

9. Segregation is not yet an accomplished fact, but it has definitely been accepted as the first principle of Native policy in the Union. As it will diminish the social consequences of contact between Europeans and Natives, the problem of Native welfare will doubtless be considered seriously in future. Ample funds have already been voted for enlarging the Native Reserves, so that the measure of assistance to the backward Native race can no longer be illustrated by observing that, exclusive of the inadequate Native Development Fund, of the total sum of £3·4 million allocated to Natives in 1929–30, £1·3 million were devoted to prisons, reformatories and police.[11]

Very little has, however, been done to improve the system of tillage and husbandry in the Reserves. In a recent report the Board of Trade and Industries mentioned that in 1934 the annual cash income derived in the Transkei and Bechuanaland from farming amounted to the miserable pittance of £2 13*s*. 6*d*. and £1 17*s*. 7*d*. per family of five ! The Board concluded that

[9] 1935 *Annual Report of the Secretary for Public Health*, U.G. 43, 1935, p. 7. The sentences have been combined in altered sequence.

[10] *Report of the Provincial Finance Commission*, U.G. 46, 1934, para. 199.

[11] U.G. 22, 1932, Statement 6.

"as long as the proceeds from agriculture are so small, the Natives in the Reserves will continue to live in poverty. Added to this is the fact that, as the result of education and increasing contact with European standards of living, the wants of the Natives are becoming more numerous and diversified, while their earning power is not increasing in the same degree. The result is that they are becoming relatively poorer."[12]

Although adverse climatic conditions and the depressed price level of farm products in 1933–34 were an important cause to the low incomes from farming observed by the Board, the poverty of the Native peasants is essentially due to over-population of the Reserves and the policy of giving "each family head as far as possible a land to work. This has meant with certain exceptions that no one may have two lands. In these circumstances there is little scope for differentiation of functions. . . . Your Commission is of opinion that this involves the maintenance of a system which cannot continue except on a very low economic level."[13] Furthermore, a low productivity is inseparable from the fact that "the young males then go to the mines to earn the money to purchase from the stores the mealies necessary to support life in the kraal. At the mines they do not learn anything that is of any use to them for the farming of their allotments in the territories." Therefore the women continue "to do the primitive farming, a mere scratching of the surface of the ground."[14] In order to remedy the deficiency of schooling and training, Native demonstrators are being employed by the Native Councils.

"Although there are distinct possibilities of increasing the returns from farming, there are, however, limiting factors which have to be contended with. In the first place, the number of demonstrators is too small for the work to be done, and consequently progress is retarded. Moreover, the conservatism of the older Natives militates against the improved methods advocated by the demon-

[12] *Report* No. 219, 1936, paras. 10 and 11.
[13] U.G. 22, 1932, paras. 141–3. The sentences quoted have been joined together.
[14] 1935 *Annual Report of the Secretary for Public Health*, U.G. 43, 1935, p. 43.

strators. . . . But perseverance and education will eventually overcome the prejudice of the Natives against any deviation from the paths trodden by their forefathers."[15]

10. There is no other method of improving the quality of the Natives but that of incessant propaganda and instruction, and, as in the case of the purposive rehabilitation of the poor European element, the educational and economic advance of the Native is dependent upon the willingness of the advanced section of the community to finance and direct it. The probable cost of educating the Native children was estimated in 1932–33 at "£4 million as an annual charge and £8 million as capital expenditure for buildings."[16] Apart from the deplorable lethargy of the middle class towards social work, it is evident that the financing of a comprehensive scheme for the upliftment of the backward sections of the Union's population presents some difficulty; indeed, it would be insuperable if it were not dovetailed into an equally extensive plan for reconstructing the productive system of the country. At the same time, the use at present made of the productive qualities of the Union's inhabitants is so incomplete that there is little danger of approaching a point at which an increased expenditure on projects to develop their latent faculties would involve a sacrifice in excess of the eventual benefit.

But there is a widespread prejudice against Native training and education. Thus the Provincial Finance Commission pointed out[17] "that in a country like South Africa with its comparatively small European population living amongst a large Native population, a special obligation rests upon it to preserve the predominance of the white population in the field of education"; largely on that account the Commission, therefore, supported the dubious dictum of one professor who gave evidence that "the Native should not be given free education, but

[15] Board of Trade and Industries, *Report* No. 219, 1936, para. 15.
[16] U.G. 46, 1934, para. 91.
[17] U.G. 46, 1934, para. 14.

should be made to pay something for it," in order that, if introduced, the facilities may be fully appreciated by them.

One important restraining factor which has in the past precluded any concerted European effort to develop the Native is rapidly disappearing, as the fear of racial admixture and political domination by the non-European majority has been lessened by the adoption of a definite policy of segregation and indirect political representation. But the numerical preponderance of the non-Europeans still exercises a powerful repressing influence, and, although their backward state at present renders the European element immune from attack, the position will be altered if they are civilised and organised. It is therefore believed that, despite the safeguards which inhere in political and geographical segregation, concurrence in a proposal to develop the qualities of the Union's non-European inhabitants is altogether dependent upon a considerable increase in the European population. Moreover, since the Natives and Eurafricans will progress in any case, the future ascendancy of the European element can only be assured if the entry of "assimilable" aliens is promoted, and, above all, if the birth rate of the Europeans which form the nucleus of the future white race in South Africa is stimulated by insistent propaganda and financial assistance. In addition, it will be shown that the adoption of that course and the general improvement of the quality of all racial groups are indispensable if the industrial development of the Union is to proceed on an economic basis and if a large rural reservoir of Europeans is to be maintained on a civilised standard of living.

The Balance of the Productive Structure

11. In order to indicate the relative importance of the principal branches of the Union's productive system, resort may be had to the occupational distribution of the South African population. Recent statistics are unfortunately not available as the final report of the 1936

population census has not yet been issued. In the circumstances, a comparative statement of South Africa's national income is appended.[18]

Estimated Net Product of South African Industry
(£'000,000)

	1917	1923	1936
Agriculture	40·3	47	75
Mining	27·3	37	60
Manufacturing and building	22·2	31	73
Transport	9·2	16	26
Commerce and Finance	20·0	12	35 [1]
Services	18·5	27	45 [1]
Rent	13·0	16	24
	150·5	186	338

[1] 1935.

12. It is apparent from the above estimates that the continuous protection of manufacturing industries and the sustained stimulation of agricultural and pastoral production have resulted in a tremendous expansion in these spheres. Similar steps have been taken to encourage

[18] The method of computation corresponds with that adopted by Professor Lehfeldt for 1917 and by the Economic and Wage Commission for 1925. Owing to the non-availability of certain data which were at their disposal, the estimate for 1936 does not purport to be approximately exact. However, they are more reliable than the results obtained by assuming that since 1917 there has been a 3% annual increase in the national dividend. This method of calculation was first employed by Mr. Middleton in an article in Volume V, Part I, No. 9 of the *Journal of the Economic Society of South Africa*. It was thereafter accepted, evidently on his evidence, by the Provincial Finance Commission, *vide* paras. 45, 71 and 233 and p. 115 of their report, U.G. 46, 1934. The dogmatic application of an arbitrary assumption is one of the features which mar the Committee's extremely informative but confused report. The example quoted confirms the need of avoiding such inadmissible assumptions by appointing a professional economist to all economic and financial commissions of enquiry.

the exploitation of the Union's base metal resources. In 1934 an Inter-Departmental Base Metals Committee was established to consider ways and means of promoting the base metal industry. An official was detailed to establish contact with the British, Continental and American metallurgical interests, while comparable propaganda was undertaken in Japan at a time when the industrial and armament boom offered favourable opportunities for expanding the export trade. Exports were simultaneously facilitated by granting concessional railway rates and by increasing the allocations for metals and minerals in the Union-German Payments Agreement, while the export subsidies paid between 1933 and 1937 necessarily exercised a stimulating effect. The erection of the Pretoria Iron and Steel Works, using local ores, also augmented the demand for base metals. Finally, the Department of Mines has been supplied with funds for the purpose of assisting small under-capitalised mines located outside the Witwatersrand region.

Insubstantial progress has however been registered, partly because the geographical location of base metal deposits often precludes exploitation on an economic export basis. In 1936 coal was produced to the value of £4 million while the output of other metals, minerals and earths amounted to £2·9 million. The production of gold, however, reached the large figure of £79·5 million, while the diamond yield was valued at £2·1 million. The preponderance of the gold-mining industry is readily apparent, the more so since the two-thirds rise in the price of gold, in conjunction with the stationary level of costs, has increased the average life of the existing mines by well over 150%. "In addition, it has made possible the profitable exploitation of enormous areas of reef hitherto untouched but known to exist . . . while ultra-deep level workings between 7,500 and 10,000 feet will, before long, make available another 200,000,000 tons of ore."[19]

[19] Dr. S. Viljoen, *Are the Gold Mines Overtaxed? The South African Journal of Economics*, December, 1935, pp. 549 and 554.

Gold-mining employment has been increasing steadily since 1929, but the peak employment has therefore not yet been reached. Early in 1936, when the European and Native workers on the gold mines equalled 33,000 and 286,000 respectively, the Government Mining Engineer estimated that "if the present expansion continues during the next six or seven years . . . more than 18,000 additional Europeans and approximately 120,000 additional Natives will be required." [20] As the capital investment in gold-mining reflects a corresponding growth, it is evident that, if the expectations are realised, an ever-growing proportion of the productive resources of the Union will be engaged in the extraction of gold. Failing the maintenance of the rate of growth experienced by the agricultural and manufacturing industries in the past decade, the existing balance between the major branches of economic activity will therefore be disturbed in favour of gold-mining.

This impending change is not generally viewed with concern, least of all by gold-mining interests, as they have always strenuously opposed the policy of protecting uneconomic agricultural and manufacturing enterprises. It has been pointed out that the resulting taxes and the increased cost of ore-extraction occasioned by high internal prices exercise a restraining influence on the gold industry. As gold-mining yields a larger net product than most other domestic industries, protection, by shortening the life of the mines, is *primâ facie* undesirable. These facts are not in dispute. It does not, however, necessarily follow that Government has acted injudiciously in fostering industries which are often unable to compete on an even footing with foreign producers by means of funds derived from the gold mines and with the assistance of protective duties which diminish the profits of that industry.

13. In framing its policy regarding the ideal distribution of the nation's resources, Government takes into account

[20] U.G. 17, 1936, p. 1.

"that the marginal social net product of resources invested in agriculture is bigger than the marginal private net product, whereas in mining it is the reverse. Agriculture is an industry which goes on for ever. It is the breeding ground of men from which the population of the towns has to be replenished. It is not only a means of gaining a living, but a way of life. Mining, on the other hand, is a wasting industry and a less healthy occupation. Transfers from mining to agriculture may therefore be socially desirable even though they cause a diminution in the national dividend." [21]

It may be, however, that the social utility of agriculture is over-estimated, leading to an over-development in that direction. Indeed,

"it is one of the most cogent arguments against the government taxation of the gold mines that the proceeds have been spent in efforts to check a redistribution of the country's economic resources that are in accord with changes in world demand, and in a way which must be completely ineffective. For with the inelastic demand for agricultural produce the only way in which the same proportion of a country's population can be maintained on the land, with development in agricultural technique, is for the farming population to revert to a system of self-sufficing peasant economics."

But instead of affecting the necessary redistribution of agricultural land,

"a large part of the resources transferred to agriculture has, according to the most competent authorities, been merely wasted. Similarly big irrigation schemes are, to a large extent, a waste of capital. They put the inefficient farmers back on the land at a tremendous cost . . . and the result is merely to force other more efficient men off the land." [22]

This waste of capital funds is unfortunate, but does not in itself impair the reasoning which prompted Government to adopt a policy of stimulating agricultural production. But, while recognising the validity of the desire to maintain a rural reserve of Europeans to supplement the infertile city-dwellers, it is considered that the operative methods of implementing it are

[21] Dr. S. Viljoen, *op. cit.*, p. 555.
[22] Dr. S. Viljoen, *op. cit.*, pp. 554–5.

doomed to failure. Although the rapid growth of consumption in recent years has shown that the demand for foodstuffs is not totally inelastic, it is nevertheless doubtful whether it is sufficiently elastic to permit of an expansion of consumption in harmony with the enlarged output of foodstuffs which the progress in agricultural technique leads one to expect. Accordingly, it will prove difficult to keep the existing number of Europeans on the land, and even more difficult to perpetuate the present distribution of the whole population between farming and other pursuits. The enlargement of the Native Reserves and the increased efficiency of the Native peasants will, in time to come, aggravate the problem, as the scope of European farming operations must be narrowed in consequence. Finally, by reducing the volume of trade in foodstuffs and agricultural raw materials, the widespread tendency towards national self-sufficiency will further augment the difficulties which are experienced. Moreover, in present conditions, subsidisation of internal consumption is not an effective solution. Many branches of farming cannot be assisted in that way at all owing to the small local market for raw materials, while in reference to such export industries as fresh fruit and sugar it is only necessary to mention that the entire European population of the Union is less than the inhabitants of certain overseas capital cities, in order to demonstrate the impracticability of the suggested solution.

The influx to the towns has been in progress for half a century, but between 1921 and 1936 the rate of urbanisation was doubled. During the larger part of the latter period, Government was actively engaged in stimulating agriculture in order to check the townward migration, clearly without success. True enough, the assistance accorded by Government to agricultural and pastoral production was vitiated by the low prices which ruled from 1929 to 1935, so that the effects of the stimulating measures were delayed until the prices of farm products recovered in 1936. While this factor may explain the total failure to maintain the desired regional

distribution of the Union's European population, it has been shown that in future years the difficulties encountered will not be less intractable. In the circumstances discriminatory taxation of gold-mining for the purpose of maintaining a rural reservoir of Europeans could only be justified if the proceeds are employed to provide the requisite economic basis for such a large European farming population.

There are two alternative courses. The present rural white population could be maintained by means of subsidies and differential prices which place a premium on inefficient methods and enable the small-scale European farmers to maintain a civilised standard of living, despite the competition of the Native peasantry. That solution is clearly undesirable, and since the previously suggested long-term objective of increasing the average European cereal-stock farms to an economic size would involve the displacement of some farmers unless the total demand is increased, the official attitude towards urbanisation would either have to be reversed or steps must be taken to increase the demand for farm products. In present-day international circumstances increasing reliance must be placed on the internal demand for foodstuffs and raw materials, and an expansion of the Union's own requirements obviously depends upon the upliftment of the backward sections of the community and the enlargement of the European population.

14. The employment value of secondary industries is a further consideration which prompted Government to adopt a policy of protection. Mining and farming employment cannot absorb the entire labour supply, as all male workers are not good miners or agriculturists, while the scope for females is very restricted in both industries. In these circumstances Government had to stimulate industrialisation or witness widespread female unemployment and the enforced idleness of many male employees. Moreover, it is unlikely that the burden of unemployment consequent to the abandonment of all protected industries with a view to minimising mining

costs would have been outweighed by the increased net product and the improved terms of trade caused by the resulting expansion of gold-mining and gold exports.

The terms of trade have for many years been altering in favour of manufacturing countries. The industrial expansion, pursuant to the 1925 protective tariff, accordingly avoided the full measure of deterioration in its trading relations with the external world to which the Union would otherwise have been subject as an agricultural exporting country and an importer of manufactured goods. It is of importance in assessing the costs of industrial protection that, by forestalling a further deterioration in the ratio of interchange, the uneconomic manufacturing industries avoided a certain loss while the concurrent expansion of agricultural exports magnified it. It follows that secondary industries should have been encouraged more freely than agriculture.

In actuality, farming pursuits were encouraged more liberally, partly for social reasons, but largely because the process of industrialisation is hampered by the limited size of the sheltered local market and the excessive costs which result from the superfluity of undersized manufacturing establishments. The latter weakness could be lessened by rationalisation and licensing control, but the former obstacle is of vital importance and can only be removed by enhancing the quality of the Union's non-European population—a course which will not be acceptable unless the present proportion of Natives to Europeans is substantially reduced. In that event the principal deterrent to industrial progress on an economic basis will disappear as the extensive deposits of industrial minerals and the wide diversity of agricultural raw materials augur well for the industrial future of the country. In due course the demand for manufactured goods emanating from the Native communities, which comprise the Union's hinterland, will facilitate further expansion. Unfortunately, at the present time, the termination of the Customs Agreements with Southern Rhodesia and Mozambique has aggravated the problem

which confronts the South African industrialist by limiting his sales in those areas.

15. In deciding to diversify the Union's productive system, Government was chiefly influenced by the authoritative prediction (prior to the rise in the price of gold),[23] that the gold-mining industry would reach a peak in 1938 and thereupon decline, so that the creation of alternative industries was a matter of urgency. It does not follow that the State is ill-disposed towards the gold-mining industry, as its pivotal rôle in counteracting the disastrous incidence of a world depression and of assuring a high national standard of living in conditions of prosperity is thoroughly appreciated. On that account the windfall income which has accrued to the mines since the Union's departure from the gold standard and the subsequent two-thirds rise in the price of gold was not confiscated, but is shared between the Treasury and the industry. Moreover, the taxation formulæ adopted were designed to lengthen the life of the mines by inducing the systematic expansion of low-grade ore ; indeed, the desire to prolong the temporal duration of the stimulus imparted by the enhanced price of gold led to the extension of the low-grade policy beyond the economic limit as the excess profits duty resulted in "the inclusion of ore with marginal yields less than marginal costs."[24]

16. The fortuitous rise in the price of gold has removed the contingency of an early depletion of the gold-bearing reefs. Thus, from the gold-supply side, the urgency of encouraging industrial and agricultural development has disappeared, while the contention has acquired new force that gold-mining taxation should be reduced as it is "inequitable, discriminating and uneconomic in restricting the expansion of the country's major industry."[25] Nevertheless, the question remains whether the rapid expansion of gold-mining and the

[23] *Cf. Official Year Book of the Union*, No. 14, p. 459.

[24] W. J. Busschau, *The Theory of Gold Supply : Reply to Discussion, South African Journal of Economics*, June, 1937, p. 140.

[25] W. J. Busschau, *ibid.*, p. 140.

prospective maintenance of output at a much higher level are compatible with the concept of economic stability, which has throughout been advanced in support of the protective policy. In this regard it should also be recalled that, failing a drastic change in the size and quality of the Union's population, conditions of demand preclude a growth of agricultural production in keeping with the anticipated rise in gold output. Moreover, it should be noted that industrial expansion has practically reached a peak. The output of the existing factories will, of course, increase while processing is bound to progress, but there is still insufficient scope for a spinning and weaving industry as well as for the large-scale manufacture of mechanical vehicles, industrial machinery and durable consumers' goods of the electrical variety; however, it is precisely in these directions that the existing industrial structure of the country is deficient. Evidently the improved balance between gold-mining, farming and manufacturing industry, which it has taken nearly twenty-five years to create, is on the verge of being radically disturbed by the expansion of the gold industry so confidently predicted.

Like those ardent advocates of reduced gold-mining taxation and minimal costs of ore extraction,[26] Government and the mining houses assumed implicitly that the international demand for gold and the enhanced price of the metal are in no danger when the operative low-grade policy was formulated in 1933. In order to correctly assess the effect on economic stability of the growing dependence on gold exports, it is, however, necessary to enquire into the validity of that optimistic hypothesis.[27]

[26] *Cf. The South African Journal of Economics*, March, 1937, pp. 22 and 41–2 (W. J. Busschau and A. J. Limebeer).

[27] The argument of the succeeding paragraphs is a summarised version of a paper entitled "*Mr. Keynes and Gold-mining*, read to the Pretoria Branch of the Economic Society of South Africa on March 22nd, 1937. The views then expressed on the "gold problem" which appeared to be gathering force are therefore not a product of the gold rumours of April-June, 1937, but they have now been linked up with the ensuing contributions on the subject by T.

17. Prior to the Franco-Anglo-American statement on monetary alignment in October, 1936, the usual method of gauging the future standing of gold was to guess how the gold *bloc* would disintegrate and to infer the probable consequences. Actually, devaluation made effective in practically the entire world the increased price of gold (induced originally by Britain's departure from the gold standard in September, 1931, and subsequently enhanced by the American decision in January, 1934, to put up the dollar price by almost 70%). The rise in the price of the metal had important consequences on its supply. Gold-mining became more profitable and the annual output rose, doubling between 1931 and 1936 in the case of Canada, the United States and other supplying countries, excluding Russia, whose output was quadrupled, and South Africa, where the output temporarily remained stationary, on account of the low-grade policy, pending the expansion of productive capacity. Moreover, India, China and Hong Kong, the Straits Settlements and Egypt commenced to dishoard to the extent of some £300 million until 1936, when the outflow abated. At first the Eastern gold was absorbed by private and institutional hoards in Europe, but in 1936 and 1937 European holders, in turn, threw even larger amounts on the market.

The available monetary reserves have been centralised increasingly ever since the Great War, and that process was accentuated by dishoarding and melting during recent years. The available gold reserves of Central Banks, Treasuries and Exchange Stabilisation Funds at present total about £5·5 billion, or approximately double the value of the 1929 holdings. The annual production has been trebled from £80 million in 1929 to £250 million, and it is expected to reach the £300 million mark.

18. Concurrently, the demand for gold changed con-

Balogh (*Some Theoretical Aspects of the Gold Problem*, *Economica*, August, 1937), C. R. Whittlesey (*The Gold Dilemma*, *The Quarterly Journal of Economics*, August, 1937) and Professor Gustav Cassel (*Skandinaviska Kreditaktiebolaget Quarterly Report*, October, 1937).

siderably. The industrial use has declined, both relatively and absolutely, from 20% to 5% of annual output.[28] Furthermore, private gold purchases have lost their former regularity, while small-scale hoarding has been effectively frustrated by the elimination of gold coins. Admittedly, the quantity of gold required for the settlement of international balances has increased in the case of England and the United States, and possibly in that of France, Belgium, Holland and Switzerland, owing to the movements of migratory short-term funds; but at the same time its use for that purpose has declined in the case of the raw material producing countries, which have for years not had any surpluses to repatriate, while the function in question has been consciously negatived in the totalitarian States by their resort to exchange clearing. The monetary demand for gold has not disappeared. One-half of the existing gold stocks are, however, concentrated in the United States, 14% in England and about one-tenth in France. In the circumstances the holdings of many other countries are inadequate (as is readily confirmed by the low percentage of their gold reserves to sight liabilities[29]); but, as their demand is not effective, the maldistribution persists.

19. Whereas the monetary reserves available to support the currency superstructure have doubled in value since 1929, the general price level has not increased in harmony. Admittedly an equal rise in prices would not have been appropriate as gold reserves were deficient in 1929. But it has rightly been observed [30] that

> "at the beginning of 1933 the United States price level had fallen to 60, the base being 100 for 1926. Assuming that this figure represents the level which could have been supported by the previously existing supply of gold, it might have been expected that the new supply would raise the price level by 70 per cent, thus practically up to the level of 1926. . . . But a price advance on the scale just indicated would have involved a marked inflation,"

[28] C. R. Whittlesey, *op. cit.*, pp. 586–7.
[29] *Cf. League of Nations World Economic Survey*, 1936–37.
[30] Professor G. Cassel, *op. cit.*, pp. 61–2.

particularly in America and England if their abnormally enlarged gold holdings had been allowed to exercise their full influence.

These two countries have in the past seven years absorbed the bulk of the dishoarded and newly-mined gold, in addition to the outflow from those European and raw material producing countries which were denuded of their monetary reserves during the depression. Since the price increase which is necessary for the effective use of their monetary reserves did not occur, it was inevitable that they would sooner or later experience a pronounced glut of gold. It has been endeavoured to reduce the apparent over-supply by raising the legal minimum reserve ratio of the Federal Reserve system and by reducing the fiduciary issue of the Bank of England, while in several sterling countries the gold holdings are artificially diminished by reflecting them at the effete standard price. Considerable surpluses are nevertheless sterilised. Moreover, if these two countries are constrained to acquire newly-mined gold as well, for which there is no alternative demand, it has been estimated [31] that "up to 10% of the current savings of the two countries" will be incarcerated in sterilised gold. The interest cost of the resulting investment is a dead loss and will reach ever-growing dimensions—except, indeed, if the price of gold were to rise further.[32] The prospect is as unenticing as the problem is clear. In present conditions the output of gold is in excess of monetary and other requirements. The attendant danger to its future standing is obvious, and is certainly not removed by denying the basic facts—as has been done since April, 1937, by interested statesmen, mining magnates and financiers—since "the blind abnegation of the problem will only arouse suspicion but not allay fear." [33]

20. There are, of course, many who simply cannot

[31] T. Balogh, *op. cit.*, p. 289.

[32] *Cf.* F. W. Paish, *The British Exchange Equalisation Fund*, 1935–37, *Economica*, August, 1937.

[33] T. Balogh, *op. cit.*, p. 289, *n.* 2.

conceive of the dethronement of gold and dismiss outright the probability of a popular reaction against the continued application of a formidable volume of resources towards extracting and storing gold. But, by way of analogy, it might perhaps be remarked that, however invincible the faith, the relative waste of multiplying cathedrals and churches in conditions of scarcity has not always evoked enthusiasm. Neither is it unreasonable to think—if reason is at all applicable—that if the public is never to caress its gold or profit by holding it, the traditional security imputed to the metal will lose all reality, resulting in a waning liquidity preference. True enough, the old love is not so fickle; renewed large-scale private hoarding has recurred and so may the flow to the East, while it has been represented as an easy solution of the surplus problem to encourage the process by minting gold coins for use by small hoarders. Large hoards, no matter where located, are not, however, an unmixed blessing, as spasmodic dishoarding perpetuates exchange instability and disturbs public confidence. Gold coinage, too, is an anachronism, and if gold coins are resuscitated it will largely be for the express purpose of imposing on the credulity of the ignorant and the backward Coloured races.

The dogmatic attitude of the bullionists is no less naive, although it suggests part of a more general solution. They hold that every major gold discovery has in the past been accompanied by rising prices; therefore prices are bound to rise in future, and with it the gold surplus will disappear. But monetary reserves are no longer used to the limit of safety for the purpose of creating currency, partly on account of their maldistribution, and, for the remainder, owing to the general monetary policy of manipulating the price level with reference to criteria other than the quantity of gold.

Still another school of thought perceives no real danger on the ground that the many countries which are now producing large quantities of gold, and America's enormous gold commitments, have created powerful vested interests which will support gold at all costs;

furthermore, England and France are bound to accord their full support. But an exclusive French-Anglo-American alliance is not the best available guarantee, as it places the future of gold in the hands of only three countries. Financially powerful though they be, the United States is prone to adopt rash monetary policies, confidence in France is always coming and going; while the United Kingdom is childishly enamoured of her new-found exchange freedom. It is only by spreading the *onus* of support and the burden involved over the entire world that an impregnable guarantee can be secured that the monetary use of gold will persist. But potent measures would have to be applied in order to gain that end, whereas "in the face of the present impasse we temporise, hoping for God knows what." [34] Neither is it possible to rest contented in the belief that, even if gold loses its *forte*, it will nevertheless remain a high-priced metal because the gold clause in existing financial contracts will adequately sustain the demand; new debts are then bound to be contracted on a different basis.

21. Some proposals to solve the problem envisage a reduction of the supplies of newly-mined gold. Thus a quantitative limitation of output by international agreement has been suggested.[35] The practicability of the scheme is, however, effectively diminished by the impossibility of securing agreement as to quotas, having regard to the recent extensive investment in new gold mines, many of which are not even in the producing stage. In any event, control of production will not solve the existing maldistribution nor the persistent flow to America and England.

Alternatively, the desired reduction of output could be secured by lowering the money-price of gold. That step was evidently contemplated in the United States early in 1937, but it was soon abandoned as the first rumour to that effect caused a severe panic which set in

[34] C. R. Whittlesey, *op. cit.*, p. 61.
[35] *Cf.* T. Balogh, *op. cit.*

motion a serious deflationary sequence of events. But the proposal has not forfeited all support. It is still regarded as a method of limiting America's potential loss if conditions do not alter and she has to continue to absorb the vast current output,[36] while Professor Cassel has given it his blessing on the ground that it will avoid the inevitable inflation which is bound to occur in order to remove the surplus of gold brought about by revaluation, dishoarding and the enlarged output.[37]

In order to be effective the price reduction would have to be substantial, as South Africa in particular would otherwise maintain her output by modifying the operative low-grade policy, while the Russian yield is not so exact a function of the price per ounce. But, if adopted on its merits, and not as a minor part of a comprehensive plan of rehabilitating the standing of gold, the results of a price reduction would be infinitely more far-reaching. Occurring independently, any such action would destroy the last remnants of the liquidity preference and involve the total destruction of the gold market. Man's love of gold, from which the gold standard originated, is closely connected with the immunity from capital loss and a probable windfall profit, which gold holdings have hitherto entailed. A drop in price will destroy that belief and even engender worse fears, while also alienating the bankers, who are the last of the loyal supporters of gold. Neither is it feasible to submit that no such result has followed past reductions in the commodity-equivalent of gold, as reactions are more severe if money values, and not real values, alter. The contention, of course, remains that the 1925 reduction in the price of gold did not jeopardise its use as a backing of banknotes and credit—on the preservation of which the future of gold depends; but the positive deflationary policy of post-war years did not have "the psychological significance of a reduction in the value of gold," [38] while the banking systems were not

[36] *Cf.* C. R. Whittlesey, *op. cit.*
[37] *Cf. Skandinaviska Kreditaktiebolaget Quarterly Report*, October, 1937
[38] T. Balogh, *op. cit.*, p. 291, *n.* 1.

involved in a direct loss as their gold holdings had not been revalued. Clearly the risks connected with an independent diminution of the price of gold are not counterbalanced by the uncertain advantage which might be gained, as " the glut of gold in some countries and its scarcity in others reflect, not a superabundance of gold in general, but an international disequilibrium. . . . It is difficult to see how a reduction in the price of gold would remedy this situation." [39]

22. Present supplies of gold are excessive in the two-fold sense that the annual output is too large, having been doubled in quantity and trebled in value since 1929, and that the notorious maldistribution of stocks is being accentuated, leading to a superabundance in the few countries whence the demand emanates and a scarcity in most other States. Any limitation of the supply of newly-mined gold should, therefore, be accompanied by measures which are designed to effect a lasting redistribution of monetary reserves. To some extent the magnitude of British and American holdings is purely fortuitous, though a necessary safeguard against the withdrawal of the huge quantity of " hot " money, which has sought refuge in London and New York. However, their repatriation would ease but not alter the situation fundamentally as an accretion to French stocks will be the main result. Actually a substantial increase in the small reserves of the raw material producing countries and the Fascist States is required.

The liberal trade policy which the British Empire, the United States and the Oslo States are determined to apply will materially assist the first category of countries, while a revival of long-term investment will further facilitate adjustment. But regeneration of foreign lending is awaiting an international return to gold as lenders are not otherwise ensured of real exchange stability ; indiscriminate authorisation of new issues in the principal capital markets should not then be countenanced,

[39] *League of Nations World Economic Survey*, 1936–37, p. 168.

however, as it would merely lead to further economic upheavals. The gold standard system can, it is true, only operate in conditions of international equilibrium; but it is itself indispensable for their emergence. The need to fortify the world economic system is generally accepted, but it is no less necessary to facilitate the desired re-allocation of gold reserves before the protracted operation of national monetary systems on the basis of a diminutive gold backing produces an irreparably meagre devotion to the gold standard. Vested interests alone are not at stake, although their preservation is important. But the fundamental reason why the future of gold must be ensured is that the gold standard is the only international monetary system which is sufficiently practicable, and therefore capable of sustaining the world economic system, which is so obviously desirable to maintain and to extend further whenever the international political situation is propitious. It was, of course, widely thought at one time that managed national paper currencies may be integrated, without using a common gold backing, by inspiring all nations with a common economic policy; the events of recent years have not only destroyed that belief, but it has also been experienced that if the link with gold is not retained, economic instability is characteristic and the international productive system threatened with extinction. *De jure* stabilisation is, therefore, a matter of urgency, and its desirability is not diminished by the probability that variable parities and exchange equalisation funds will be an outstanding feature of the future gold standard; or by the possible modification of the right of conversion, in order to avoid perpetual exchange instability due to excessive speculation on a rise in the price of gold [40] to which flexible parities would otherwise lead.

The process of redistribution will be slow and immediate relief is also necessary. Concurrently with

[40] *Cf.* Professor Cassel, *Skandinaviska Kreditaktiebolaget Quarterly Report*, October, 1935, p. 79.

stabilisation and the inauguration of a liberal foreign trade policy, steps should therefore be taken to limit the excessive current production of gold. To that end reliance should be placed mainly on a higher price level, which would lead to a more effective utilisation of gold reserves, and, by increasing the costs of ore extraction, place an automatic and unobtrusive check on the vast flow of newly-mined gold. The full measure of inflation appropriate to the enhanced gold reserves would, however, be excessive, and in order to forestall it, a moderate reduction in the price of gold may be unavoidable. Neither is it inequitable that, in order to safeguard their economic future, the gold-producing countries should make a contributory sacrifice. If *de jure* stabilisation is announced when prices have reached the 1929 level, it would suffice to lower the price of gold by 20%, while the disastrous consequences which must accompany an independent price reduction would then be avoided, since stabilisation on a gold basis and the avowed return to an historic price level, would, as in 1925, engender a confident sentiment.

23. This part of the general solution is not unattainable, but to extend the scope of the settlement to the principal Fascist States will be as difficult as it is important. Their resources are great, but their share of the available gold stocks is only 3%. The autarchic Fascist policy is disruptive, and if conversion to their ultra-nationalist ideal maintains its recent pace, the world economic system and its appendage, the international gold standard, will eventually be engulfed. Closed economic systems and rigid bilateral balancing of trade and payments must deprive gold of its utility as a means of settling international balances—simply because such balances will not exist. Furthermore, a lessened dependence on the outside world and rigid exchange clearing endanger the monetary use of gold as well. Thus self-sufficiency diminishes the importance of the foreign exchange value of the national currency, while its external purchasing power can in any case be effectively con-

trolled, regardless of the available gold reserves, if exchange clearing is perfected and incorporated as part of the normal machinery of the national economy. This is precisely what the Fascist countries are doing and the economic sanctions applied in 1935–36 have strengthened their resolve. Since a gold backing is also unnecessary for the purpose of regulating the internal purchasing power of their currencies, the gold holdings of the Fascist countries are diminutive, and as long as their economic policies retain their present objectives they are under no necessity to increase them ; hence, for the time being, assistance is hardly likely to be forthcoming from them in order to reinforce the standing of gold.

It remains to be seen whether the partial ideological defeat of the world economic system can be counteracted by converting, as would be necessary, the major Fascist States themselves. It is at least questionable whether the political and territorial concessions which they would demand in return will be granted in time—if at all. From this point of view, therefore, it seems that the contemplated economic approach to world appeasement and the accompanying efforts to effect a permanent redistribution of gold reserves are doomed to failure.

National Reconstruction

24. If the future of gold is so uncertain—and one must inevitably abide by one's own findings—it is foolish for any country to place increasing reliance on the continued profitability of its gold-mining industry. That, however, is the case in the Union, and the operative agricultural, industrial, railway, immigration and wage policies are similarly based on the definite assumption that the régime of prosperity induced by gold-mining development is neither uncertain nor precarious. The preceding analysis naturally suggests no more than that the assumption in question is fictitious, and, as it has not been established that a crash of the gold market is impending and unavoidable, the adoption of selective gold-mining, in order to " make hay while the sun

shines," would not be appropriate; but neither is an extreme low-grade policy altogether justified. Moreover, the mere fact of uncertainty warrants the conclusion that attention should be given betimes to national reconstruction on a more solid basis. The over-development of gold-mining which is under way should, therefore, be counteracted by expanding the principal alternative supports, agriculture and manufacturing industry, while official policy should further be directed at "attempting to make a larger proportion of the Union's activities *really* economic."[41]

The mere withdrawal of protective duties and price controls is not sufficient for that purpose, and will probably not even have the desired result. Indeed, it is considered that the requisite economic basis can only be provided by increasing the Union's European population to a respectable size and by simultaneously improving the backward sections of the nation. Furthermore, the unit-size of the average European cereal-stock farms should be enlarged and agricultural equipment and technique should generally be modernised; finally, the size of the country's industrial establishments must be substantially increased. The proceeds of mining-taxation should, therefore, be applied in order to attain these ends, and industrialisation should in particular be encouraged by creating an industrial financing corporation.

25. The suggested objectives have been formulated with due regard to the economic and social circumstances of the Union, including the pro-European sentiment which is almost invariably the decisive factor in the determination of policy in South Africa. Since European immigration would lessen the preponderance of the Natives, and therefore conforms to that sentiment, it might be thought that the proposal would find a ready acceptance in the rural regions. This is, however, unlikely since the farmers are averse from measures which,

[41] Professor C. S. Richards, *Prices and the "Cost of Living" in South Africa*, *South African Journal of Economics*, December, 1937, p. 440.

like migration to the cities, tend to disturb the present geographical and racial balance of political power. Moreover, the general trend of the suggestions is not quite in line with the habitual outlook, and unfortunately "there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest." [42]

[42] J. M. Keynes, *op. cit.*, p. 383.

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PRINTED IN GREAT BRITAIN BY THE WHITEFRIARS PRESS LTD.
LONDON AND TONBRIDGE